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ACCOUNTING · MANAGEMENT · FINANCE

Cost Accounting—

AND MEASUREMENTS OF EFFICIENCY

Professional Education

Taxation of Trading Profits

JANUARY 1950 *ONE & SIXPENCE*

THE SOCIETY OF INCORPORATED ACCOUNTANTS

The Society of Incorporated Accountants and Auditors

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Accountancy

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Professional Notes

Cost Accounting—and Measurements of Efficiency

COST ACCOUNTING IS IN THE NEWS. AS ANNOUNCED BY SIR NORMAN KIPPING AT A recent luncheon of the Incorporated Accountants' London and District Society (see page 40 of this issue), a mission of accountants is to visit the United States to report upon cost and works accounting methods there. The party will go under the auspices of the Anglo-American Council on Productivity. Some sixteen parties representing various industries have already visited the United States and about a dozen have returned. If the other reports reach the standard of that of the steel founders, one of three so far published, they will be of inestimable value to the industrialists for whom they are intended. The addition of this party, whose inquiry will not be limited to any one industry, to the others, most of which were thus restricted, is a wise move, for an overall comparison of British and American costing methods is badly needed and will be gratefully received by the accountancy profession. We hope that no time wiill be lost in forming the mission and in despatching it across the Atlantic.

An interim report by a joint committee of the Institution of Production Engineers and the Institute of Cost and Works Accountants, published last month (obtainable only from the publishers, Macdonald & Evans, 8, John Street, London, W.C.1, price 1s. 7d. post free), lends point to the announcement of the proposed mission to the United States. The joint committee has so far confined itself to an examination of existing techniques of measuring productivity and its studies are on a rather generalised plane. It decisively rejects inter-firm and intra-firm comparisons by cost of products; only comparisons by cost of processes can be useful:

> A variety of processes is almost always necessary to produce any product, and by switching attention from product to process a greater range of comparison becomes possible. Many processes are common to firms making totally different products, so that unlike factories can compare efficiencies. By the relation of the many processes necessary for the production of a particular product to a common standard, it may well be possible to arrive at some definite conclusion regarding the productivity of the firm as a whole, and eventually of the industry as a whole.

The committee collected from four firms data for a comparison of efficiency in the operation of a group of automatic lathes. The results showed that the estimates of shut-down time (for setting, lubricating and other such routine operations), expressed as a percentage of capacity hours of the machines, varied widely—from 10 per cent. to 20 per cent.—and were subject to an error of as much as 10 per cent. There was also a wide range in the percentage utilisation of machine capacity both among firms and in different weeks for the same firm. In general, plant utilisation was low, so low that the committee thought that a study, even if limited to machine utilisation throughout British industry, would:

> provide valuable information, for if machine utilisation of the less efficient firms were brought up to the level of the best, there would be a very considerable increase in productivity at very little extra cost.

Groups set up by the committee tried to discover a money cost per standard hour per process that would eliminate such factors as the variation in capital intensity between different firms and would enable direct comparisons of productivity to be made. "Unfortunately, the initial attempt did not provide sufficient data for even a tentative comparison to be made." However, another group reached the conclusion that the most suitable methods for comparing productivity would employ time studies. But little hope was held out of rapid progress in the making of these comparisons, for there did not appear to be any dis-

coverable comparability between the methods now employed by different firms. Moreover, most time study rates adopted by firms were internally inconsistent, being used not for measuring efficiencies but mainly for "bolstering up a basic hourly wage to an attractive wage level, under the title of an incentive scheme."

The joint committee, though largely confining itself to generalities—perhaps necessarily in the present state of knowledge on this subject in Great Britain—and stating conclusions that—again, perhaps inevitably—seem rather negative, has at least indicated some of the directions in which, if useful guides to standards of efficiency are to be found, cost accounting needs to be supplemented. If the common impression is correct that the United States is far in advance of this country in efficiency comparisons and time studies, the mission that is going to the United States would do well to consider these bigger and broader problems as well as those of cost accounting proper. Cost accounting can do a great deal, but the accountancy profession, in particular, must be wary of claiming too much for it. When the mission is appointed and its term of reference fixed the report of the Institution of Production Engineers and the Institute of Cost and Works Accountants should be borne in mind.

"Redeemable" and "Irredeemable"

While it is inevitable that some technical terms should become misleading to the unversed, it ought to be possible to avoid calling things which are essentially similar by names which are the opposite of each other. This is, however, precisely what is happening in the use of the words "redeemable" and "irredeemable." In common parlance the latter term is applied to those securities, usually Government ones, which though not perpetual have no final date of redemption, and on which the interest is at a rate lower than that on new borrowings. Since there is thus no visible chance of their repayment they are not inappropriately styled irredeemable.

Unfortunately, there has now grown up a practice of issuing "redeemable preference shares" which have two characteristics. They are repayable, usually at varying premiums, at the option of the borrower over a period of years or on liquidation of the company but they have no final redemption date. The company has precisely the same "two-way option" against the investor as the Government has with the Treasury 2½ per cent. issue. It is evident that the only additional protection afforded the investor is the redemption in the event of a liquidation, although there is a theoretical protection against a fall in the rate of interest where the premium on early repayment is appreciable. The value of this type of share may be little or great, but it ought to bear a title which distinguishes it unmistakably from a share which has a final date of redemption. As it is, these irredeemable shares are being freely recommended as "redeemable," to the detriment of those who do not inquire fully into their terms.

Presentation to Mr. A. A. Garrett

On December 31 Mr. A. A. Garrett retired from his secretaryship of the Society of Incorporated Accountants. We mark the occasion by an article on Mr. Garrett which appears, with a photograph, on page 14 of this issue of ACCOUNTANCY. We are glad to announce that the occasion is also to be marked by a presentation to Mr. Garrett from the members of the Society, in token of their appreciation and friendship. We have no doubt that Incorporated Accountants everywhere will have the greatest pleasure in responding to the letter, reproduced below, which is being sent them by Mr. Edward Baldry, member of the Council of the Society, who is kindly acting as the Honorary Secretary of the Fund:

> Mr. A. A. Garrett is retiring from the Secretaryship of the Society of Incorporated Accountants at the end of this year, having occupied this position for more than thirty years. During this period the membership of the Society has increased nearly threefold, and you will have seen that in July last Mr. Garrett was elected an honorary member of the Society, in recognition of his devoted service. He was therefore able to represent us at the recent Australian Congress on Accounting in his dual capacity.
>
> It is felt that members will wish to be afforded an opportunity of evidencing to him not merely their appreciation of the unique services which he has rendered to the Society but also their personal affection for one whose never failing courtesy and unselfishness have made us all his friends.
>
> With the cordial approval of the President, Mr. A. Stuart Allen, and his colleagues, it has been decided to invite members to subscribe to a fund so that on his return from Australia a presentation may be made to him, the final form of which has not yet been settled. It is intended, however, that a suitably inscribed volume containing the names of all subscribers shall accompany the presentation, as it is felt that this will give him special pleasure—particularly as the number of individual subscribers will undoubtedly be large.
>
> Since it is certain that Mr. Garrett would prefer a comprehensive list of subscribers rather than a large total fund, it is thought that the individual subscription should have an upper limit of 10s. Subscriptions should be sent to me at Bilbao House, 36 New Broad Street, London, E.C.2.

New Secretary and Deputy Secretary of the Society

We have pleasure in announcing that Mr. I. A. F. Craig, O.B.E., B.A., has been appointed Secretary of the Society, in succession to Mr. A. A. Garrett. Mr. Craig became Deputy Secretary of the Society in 1947.

We are also pleased to announce that Mr. C. A. Evan-Jones, M.B.E., Assistant Secretary since 1947, has been appointed Deputy Secretary in the place of Mr. Craig.

We wish Mr. Craig and Mr. Evan-Jones every happiness and success in their new appointments.

Receiving Order for Non-Payment of Rates

An entirely new point of bankruptcy law and practice was decided recently by the Divisional Court in *In re a Debtor* (*The Times*, December 6, 1949).

Rates have always had the particular characteristic that they were not recoverable by action. Ever since their introduction in 1601, the enforcement of the liability for their payment has been by distress, and later, in addition, by a committal order made by a Court of summary jurisdiction.

It was accordingly contended that non-payment of rates could not support a petition in bankruptcy. As rates cannot be made the subject of an action

clearly a bankruptcy notice cannot be issued, so that if a petition can be presented, it is necessary to seek some other act of bankruptcy on which to found the petition. In this particular case the act of bankruptcy relied on was that the debtors had executed a deed of assignment in favour of their creditors to which the local authority was not a party.

Now in *ex parte Muirhead* (1876, 2 Ch.D., p. 72) Lord Chief Justice Cockburn expressly stated that a petitioning creditor's debt must be actionable, but it was pointed out by the Divisional Court that this expression of opinion was merely *obiter*, and that the point decided in the *Muirhead* case was to the effect that a petitioning creditor must be personally entitled to the debt in question.

In arriving at their decision that non-payment of rates could support a petition in bankruptcy, the Court in the present case relied on the fact that rates were expressly regarded as "debts" for the purpose of Section 33 of the Bankruptcy Act, 1914, and therefore it was difficult to see why they should not constitute " debts " for the purposes of other Sections, such as Section 4. Moreover, as far as company law was concerned it had been decided in *re North Bucks Furniture Depositories, Ltd.* (1939, Ch. 690) that unpaid rates could support a petition for the winding-up of a company. In company legislation, the Court pointed out, the act of winding-up was an exact parallel to that of bankruptcy, and it would be a lamentable anomaly if there should be differences on what constituted a good petitioning creditor's debt.

The Divisional Court accordingly ruled that the local authority were entitled to present a petition in bankruptcy against the debtors for non-payment of rates.

One consequence of this decision must inevitably be that rate defaulters can be deprived of the relief afforded to them by the Money Payments (Justices' Procedure) Act of 1935, if the authority should elect to take action against them by way of bankruptcy proceedings and not by way of summary proceedings in the police court.

Census of Distribution

It was announced in ACCOUNTANCY for last May (page 110) that traders who wish their return for next year's census of distribution to cover a financial year differing from the calendar year 1950 (because their accounting year ends on a date other than December 31, 1950) would be able to obtain in advance a specimen census form showing the kind of information they would be required to provide early in 1951.

The forms have been available since last spring to traders wishing to base their returns on a business year beginning before January 1, 1950, and are now available to all traders concerned.

Returns for the census may be based on a financial year ending between April 5, 1950, and April 6, 1951.

We are now informed by the Board of Trade that traders may obtain copies of the form from their local Food Office. Alternatively, they may apply for a form by writing to the Statistics Division of the Board at Thames House North, London, S.W.1, stating the kind of business carried on and the number of businesses operated.

The principal forms are for the following types of businesses : retail shopkeepers ; motor traders (dealers, filling stations, repair garages, etc.) ; caterers (restaurants, cafés, snack bars, etc.) ; stall-holders, street traders, pedlars, etc.) ; pawnbrokers ; certain service traders (for example, hairdressers, undertakers, photographers) ; boot and shoe repairers ; other repair traders ; wholesalers and merchants (including importers and exporters, manufacturers' selling outlets, agents and warehouses).

These specimen forms should not be filled in or returned to the Board of Trade. They are intended to be kept for information. Census forms for completion will be issued in January, 1951.

Purchase Tax Statistics

The yield from the purchase tax continued to mount in the financial year 1948-49. Receipts for that year totalled £291.1 million, compared with £246.2 million in 1947-48 and £180.9 million in 1946-47. Part of this rise in the yield was the result of the increased rates effected in the Budget of November, 1947, and the reductions made in the Budget of April, 1948, did not begin to affect tax receipts until the second part of the financial year. While more consumer goods were on the markets, the range of " utility " goods, which are mostly tax exempt, was greatly extended during the financial year. In consequence, the total trade in chargeable goods was estimated at a lower figure in 1948-49 than in 1947-48 —£680 million against £710 million, at wholesale prices and exclusive of tax.

The following groups of commodities were the most fruitful :

	Tax yield 1948-49 £ million
Non-utility apparel ; utility fur garments ; utility fully-fashioned stockings	54·4
Stationery and office requisites ..	27·5
Passenger road vehicles, including cycles	21·0
Non-utility tissues and fabrics ; plastic sheeting ; fur skins ..	20·2
Toilet preparations and perfumery	17·8
Hardware ; non-utility furniture ; etc.	16·6
Floor coverings	14·3

Registered traders numbered 69,600 in 1948-49, a small increase on the figure for the previous year (69,000). In the last war year, 1945-46, the total was 53,400 and in the first year of purchase tax, 1940-41, only 39,100.

These figures—with further information about the purchase tax and other customs and excise duties—are given in the *Report of the Commissioners of Customs and Excise* for the year ended March 31, 1949.

Dirty Bank Notes

Many people have been complaining in recent months that they never see a new or clean bank note, even when drawing money direct from the bank. Certainly, many notes now given over the bank counter are so dirty and worn that they are almost insanitary. A customer complained to his bank manager about the condition of the notes. In a courteous reply the manager explained that, owing to a new decree at the Bank of England, his supplies—in common with those of all other banks—had ceased to be new notes. Instead, used notes were being issued, but the manager hoped the time would come when the authorities would once again resume the issue of new notes, when it would be the bank's pleasure to reintroduce a " clean note " service to its customers. That reply was received four months

ago but there has certainly been no improvement in the meantime. It may be necessary to practise economy in the manufacture of notes but there is a definite danger in the use of manhandled notes such as are still in circulation everywhere. Let us have reasonable issues of new notes so that we may take some pride in our own currency in our own country.

The Tax Inspector's Dream

In our last issue we commented upon American reports that electronics is now being applied to accounting (see "Electronic Accounting?" page 318). The following note, which we reproduce from the *Manchester Guardian* of December 17, discusses in amusing fashion another suggested use of the "electronic brain."

> It is reported that the United States Treasury is to enlist the aid of "a large electronic calculator" in dealing with defaulting taxpayers. It will work out what anyone owes the Government in one-seventieth of a second and "if anybody tries to get away with anything in his tax declaration it will spot it immediately." It must be a very accomplished electronic brain if it can extract the right result from a wrong return—or is it a thought-reader as well as a calculator? But perhaps the taxpayers who are under suspicion will first be doped with one of those American preparations which are supposed to preclude the possibility of falsehood. The combination of a "truth serum" and an electronic brain should indeed make the path of a defaulter a hard one. A mere Inspector of Taxes on the British model would seem hopelessly humane and uninquisitive.

Charities and Income Tax

The Chancellor of the Exchequer was asked recently in the House of Commons whether he had any statement to make in view of the decision of the Court of Appeal in the case *Oxford Group* v. *Commissioners of Inland Revenue*, which had resulted in the withdrawal of recognition as charities from certain corporations.

We reported upon this case as decided in the King's Bench Division in our issue of last April (page 100). The Oxford Group was authorised by its memorandum and articles to establish and support not only charitable but also benevolent associations or institutions and to subscribe or guarantee money not only for charitable but also for benevolent purposes. It was held that the inclusion of benevolent associations and purposes put the Group outside the exemption provisions of Section 37 of the Income Tax Act, 1918.

Sir Stafford Cripps, in a written reply, stated that since the powers in cases such as those referred to had in the past been regarded as merely ancillary to admittedly charitable objects, and had accordingly not been called in question by the Inland Revenue, he proposed that, subject to certain conditions, an opportunity should be afforded to such bodies to amend their constitution without being deprived of relief from income tax for the intervening period. The conditions are: (*a*) That the body has hitherto been recognised by the Inland Revenue as a charity for income tax purposes; (*b*) that its status as such is impugned by reason only of the fact that its memorandum and articles include a paragraph or paragraphs in the terms in question or in terms closely approximating to those terms; and (*c*) that before the end of the current income tax year 1949-50 it amends its memorandum and articles to conform with the requirements of the law as now declared by the Court of Appeal. He said that where these conditions are satisfied the Inland Revenue will allow relief, in advance of legislative provisions which he would propose to introduce in a Finance Bill in due course.

Bonus Issues

Another change, the third this year, is announced in the Government's policy towards bonus issues. This latest change appears, however, to be insubstantial, if not meaningless. The Capital Issues Committee may now recommend a bonus issue if it is necessary "to enable a company to continue to expand its production or to increase the volume of its exports." How can a mere capitalisation of reserves have this effect?

Unattested Alterations to Wills

A Probate Court has recently decided upon the effect of alterations made in a will by pasting slips of paper over the original amount of the legacies (*in re Itter deceased*).

Formerly in such circumstances a will would have been admitted to probate with blanks for the amounts of the legacies, since the writing on the slips of paper would not have been attested and accordingly could not have been admitted to probate. The case of *in re Itter* has established a new departure from this practice. The beneficiary will now be entitled to obtain an order from the Court to have the will itself photographed by infra red or other process for the purpose of determining the original writing of the testator beneath the slips of paper. If the photographs are successful and clearly indicate what the original writing was, then according to the decision recently given the beneficiary would be entitled to probate of the will with the original writing.

There are two grounds on which the original writing may thus be admitted to probate. On the first ground, it can be said that the words are apparent on the face of the document within the meaning of the Wills Act of 1837. But in the case of *in re Itter* the Court took the view that they were not so apparent, because they could not be made apparent to the human eye except as a result of other documents, namely, the photographs, coming into being.

However, there was a second ground on which the words could be entitled to be admitted to probate, namely, as a result of the application of what is known as the doctrine of dependent relative revocation. According to that doctrine, if a testator when altering a bequest intends the original bequest to stand if the alteration is not effective in law then the law will give effect to his intention and will admit the original bequest to probate. In this particular case the conclusion of facts at which the Court arrived was that the testator in making these alterations on the slips of paper which he had gummed over the document did so on the assumption either that they would be effective, or, if they were not effective, then that the original bequest would stand. The Court accordingly gave effect to this intention by holding that the original amounts of the legacies which were under the slips of paper which were revealed by the photographs were to be admitted to probate.

ACCOUNTANCY

FORMERLY THE INCORPORATED ACCOUNTANTS' JOURNAL ESTABLISHED 1889

The Annual Subscription to ACCOUNTANCY *is 17s. 6d., which includes postage to all parts of the world. The price of a single copy is 1s. 6d., postage extra. All communications to be addressed to the Editor, Incorporated Accountants' Hall, Victoria Embankment, London, W.C.2.*

Professional Education

THE REPORT OF THE COMMITTEE ON Education for Commerce demands careful examination by the professional bodies of accountants. The Committee, appointed by the Minister of Education under the chairmanship of Sir Alexander M. Carr-Saunders, considered education for commerce at all stages, from school to university, and in all branches, from shorthand and typewriting to research studies. The Committee's conclusions on professional education may be put under two main heads. Firstly, the Committee is strongly of the view that professional studies should not be begun before the age of 18 years. Full-time education should continue up to the age of national service, which should be completed before professional training begins. Secondly, the Committee is highly critical of existing methods of education in the accountancy profession and suggests that they should be radically changed.

It is true, as the Committee remarks, that difficulties and inequities about deferment of national service would be diminished if professional training did not normally begin until national service had been completed. There is also little doubt that the Committee is right in urging that full-time education beyond the age of 16 years is desirable. This is particularly so if this further education is framed along the lines envisaged by the Committee, to comprise "a study of the structure of the business world and of the ways in which broadly it operates." However, while the Committee recognises that some recruits to the profession may not be able to stay in full-time education so long, it appears to us to under-estimate the difficulties of would-be accountants who fall in this class, to minimise their numbers and, in this part of the report, to overlook the difficulties in providing adequate teaching facilities for them.

The Committee states that many professional qualifications can be obtained at what it regards as an unduly early age, with the result that many entrants study for their professional qualifications too soon. Apparently, the accountancy profession is included in this stricture. The main solution put forward is that specialist subjects ("vocational training" in the wording of the Committee) should not figure in the syllabus for the intermediate examination. It presumably follows that the intermediate examination would be taken—or exemption from it gained—before entry into employment in the profession. Either these proposals take insufficient account of the range of technical subjects needed in qualifying for the accountancy profession, which could not possibly be covered in the final examination alone, or they imply that a candidate could not complete the final examination until two or three years later than at present. Since the Committee wishes the qualifying age to be raised, the latter course is probably nearer its aim. The Committee proposes that exemption from the intermediate examination should be granted to those who had gained a national certificate for commerce—a new certificate which would be given after three years' study of general commercial subjects. We confess to some underlying doubts whether it is true to say that no one under the age of 18 can usefully study specialised accounting subjects or—the corollary to this—that members of the recognised accountancy bodies qualify at too young an age.

Under the second main head of the Committee's conclusions, the chief points made are that the study at home and by correspondence courses is undesirable, and that day-time education of employees should be encouraged. These two conclusions are married in a recommendation, specifically directed to the accountancy profession, that :

> Part-time day courses, possibly on the "sandwich" principle, giving preparation for the intermediate and final examinations of the three main bodies of accountants, should be organised by the colleges of commerce and the major technical colleges on a regional basis and in conjunction with the accountancy bodies. The final course would, of course, be suitable also for graduates studying for the final professional examinations after leaving the universities.

Undoubtedly a strong case can be made out, in general terms, against study by correspondence. But even where the choice of adequate part-time courses at a technical college is open to the student, it is found in practice that he generally prefers the correspondence course. The advantages claimed by the accountancy candidate for correspondence courses cannot be lightly dismissed. They include his being able to work when and where it suits him—an important consideration when office hours are variable and travelling on audits is necessary. Further, the correspondence courses are in fact conducted by members of the profession who are or have been themselves in practice : it is altogether doubtful whether a sufficient force of experienced members could be built up to run courses at a large number of technical and commercial colleges. Accountancy is a subject which requires a great deal of book-work and the correspondence method does lend itself to written exercises of the kind needed for a good accountancy training.

There is, however, everything to be said for giving students the choice between correspondence and oral tuition and we hope that the recommendation of the Committee that part-time day courses should be organised on a larger scale will be implemented. Subject to the points we have made and provided it is recognised that many accounting firms do already allow free time for study, we also applaud the Committee's recommendation that employers should do all in their power to make day-time study possible.

Executorship Law and Accounts

Further Leaves from the Notebook of a Professional Accountant *

By ERNEST EVAN SPICER, F.C.A.

THE GREAT CHARM OF A MARRIED MAN'S FIRST WILL AND testament lies in its beautiful and touching simplicity.

He usually leaves everything of which he may die possessed to his wife absolutely.

Possibly he has not much to leave her, and this fact may account for his extreme generosity; but, no matter what the reasons may be, or whether he has much or little to leave, he unquestionably does the right thing.

It seldom happens, however, that this first will proves to be his last will, notwithstanding the fact that it is labelled as such, and when eventually he dies it is often found that the absolute gift to his very dear wife has been converted into a comparatively modest annuity and that others are named as the main beneficiaries.

This does not necessarily indicate a broken romance, or even a lack of confidence in the lady of his choice. It may well be a prudent action on his part and thereby he may—for a second time—be doing the right thing at the right moment, or conversely, he may be acting very selfishly and thereby doing a great wrong by those whom he ought to trust and benefit.

It is so easy for a successful business man to persuade himself that he alone has a proper understanding of the responsibilities which attach to the possession of wealth, and that if he were so reckless as to transfer any portion of that wealth to his kith and kin they would inevitably—and as a direct consequence—" go to the Devil."

This is a terrifying thought for the miserable man.

He knows that some day he must die and that if he fails to divest himself of some portion of his property at least five years before the happening of that world-shattering and awful event, the bulk of his fortune will be claimed by the Estate Duty authorities, whilst on the other hand, if he takes a risk with his family, he may thereby be endangering their immortal souls.

He usually ends up by making a settlement of such complexity as to be wholly unintelligible to the trustees, and a will which suggests an underlying intention of preventing anybody, in any circumstances whatever, from enjoying any substantial benefit thereunder.

In these days, wills and settlements should be as simple and as free from complexity as possible. Complexity adds materially to the costs of administration and unless the utmost care be exercised the balance of a large estate, after meeting the Estate Duty, may very easily be absorbed, like that of Mr. Jarndyce, in costs and losses.

A man should make his will on the assumption that he may die tomorrow, but nevertheless with every hope of living to a ripe old age. The document, therefore, should in no circumstances be regarded as final but should be reviewed quite frequently in the light of the changing circumstances.

Further, before instructing his solicitor he should always consult his professional accountant. Very few men, when making their wills, can form a mental picture of the effect of their wishes, and this is where the professional accountant plays a vital part. He should translate the verbal instructions into figures, and it is as certain as " taxes " that when the client sees the tabulated statement he will want to think again.

In practice it usually happens that three or even four such schedules will have to be prepared before complete satisfaction is reached, and it is only at this point that instructions should be given to the solicitor. In this manner professional accountants and solicitors can collaborate in friendly harmony to their mutual benefit and to the great advantage of their clients.

Let us choose an example from our notebook to demonstrate how considerable may be these benefits.

ILLUSTRATION ONE

Twenty-seven years ago Sir Ambrose Whiting found himself in difficulties with the Inland Revenue authorities, and on their recommendation he consulted a professional accountant. He was introduced to Mr. Charles Greatheart by his cousin, Mr. Montague Whiting, who had employed that gentleman, to his entire satisfaction, in a case involving somewhat similar considerations.

Mr. Greatheart probed very deeply into the financial affairs of Sir Ambrose, with the result that not only were the additional assessments cancelled but a substantial sum in tax was recovered.

As a result, Sir Ambrose adopted the very prudent practice of always consulting Mr. Greatheart before committing himself on any matter whatever affecting his financial interests. Thus, under the guidance of that gentleman he has made fourteen wills during the past twenty-seven years and on each occasion he has experienced a feeling of having been granted an increased expectation of life. He has been gradually weaned to the idea that it is perhaps better to give during lifetime—when the gift will be fully appreciated—rather than to accumulate an unnecessarily large fortune which, at death, may prove wholly insufficient, after the payment of Estate Duty, to meet his testamentary wishes.

* A first article, *Leaves from the Notebook of a Professional Accountant*, appeared in ACCOUNTANCY for September, 1949.

Each will has thus been rendered successively more simple ; the value of the estate has been substantially reduced, and the rate of Estate Duty which would be payable should Sir Ambrose die tomorrow renders it reasonably certain that all legacies bequeathed under the will will be paid in full.

Sir Ambrose is now a completely happy man ; he no longer worries about his wealth and there are quite a number of people who will shed genuine tears of sorrow when he dies. He reviewed his will last Thursday, but on the advice of Mr. Greatheart returned it unaltered to the Westminster Bank for safe custody.

The idea formulated by Sir Ambrose, that a man who gives during his lifetime will thereby add to his expectation of life, is not wholly fantastic.

He knows that unless he lives five years the wretched donee may have to pay a large sum by way of Estate Duty on the gift *inter vivos* and this fact has a psychological effect on the donor who feels that he must " play the game."

Anyhow, the fact remains that Sir Ambrose appears to grow younger each year and his blood pressure is now perfectly normal.

* * * *

Let us now turn our thoughts to a somewhat curious, though not entirely unimportant, matter connected with voluntary settlements.

How often do we read in such documents a clause somewhat as follows ?

> " The trustees shall hold the trust fund, both as to capital and income in trust for all or any the children or child of X who being male shall attain the age of twenty-one years or being female shall attain that age or marry and if more than one in equal shares."

But why this continuance of an archaic differentiation between the sexes in favour of the weaker ? In the past there may have been good reason for it, but to-day it may create a grave, even though unintentional, injustice.

In the Golden Days of Yore many wealthy parents experienced a mild thrill of satisfaction if they succeeded in marrying off their daughters while those girls were still in their teens, but this sense of virtuous superiority over less fortunate neighbours did not apply as regards sons.

The eldest son normally inherited as a matter of course the lion's share of the family fortune and even the younger sons got a " look in " before the daughters, whose " portions " were fixed usually on a somewhat modest scale.

It was unwise, therefore, in the case of sons to curtail unnecessarily the period of parental control, particularly bearing in mind that young men in those days who married under the age of 21 more often than not chose their brides from the ranks of the yellow-haired barmaids. To-day parental control is somewhat out of date and a boy who is determined to get married at the immature age of, say, 19 usually succeeds in doing so despite parental advice to the contrary. Further, in most cases nowadays, the wrath of parents, though momentarily paralytic, is happily evanescent and does not extend to the second and third generation as was sometimes the case in days gone by.

Let us take an example from our notebook to illustrate how cruel may be the effect of such a clause in the case of a youth who weds, not wisely but otherwisely, at the age of, say, 19, and who dies leaving issue before reaching his majority.

ILLUSTRATION TWO

Shortly after her marriage to Sir George, Lady Emily Whiting settled a sum of £100,000 on trustees to be held in trust for all her children—including her stepdaughter, Christine Harley—who, being male, should attain the age of 21 years, or, being female, should attain that age or marry, and if more than one, in equal shares.

Lady Emily died in 1940 as a result of enemy action and Sir George was left a widower with one son, Charles, aged 17 years, and the guardianship of his late wife's step-daughter Christine, aged 19 years.

Under her will Lady Emily left her husband a legacy of £20,000 but directed her trustees to invest the money in gilt-edged securities ; to hold the fund on his behalf and to pay him each year a sum of £2,000 by monthly instal-ments, the sum by which the income fell short of £2,000 to be paid out of the capital sum.

The residue of her estate she left to the Rev. Stephen Collins absolutely, " to relieve that gentleman of all financial worries."

Now, Christine Harley—though of a somewhat grasping disposition—was as beautiful as she was rich in expectancy, and this fact being noted by Mr. Montgomery Collins—the elder son of the Rev. Stephen Collins—he laid siege to the heiress, and within six months of the death of Lady Emily led her in triumph to the hymeneal altar, thus converting an interest in expectancy into a very solid vested interest.

Young Charles Whiting went back to school after the marriage of Christine, but " joined up " promptly on his eighteenth birthday. Shortly afterwards he came home on a 48-hour leave and it was on this occasion that he met for the first time, and loved with all the devotion of his passionate nature, Miss Fanny Crawler, seventh daughter of the Rev. Cuthbert Crawler—curate to the Rev. Stephen Collins. The adoration of the gentle Fanny was no less warm than that of her lover, and she determined from that day forth to bring a ray of sunshine into the life of " her Charles."

So successful was she that within a month of Charles reaching his nineteenth birthday, and despite the strong opposition of Sir George Whiting, and more particularly that of the Rev. Stephen Collins, they were declared man and wife by the Rev. Cuthbert Crawler at the Church of St. Ethelberta.

Their union was richly blessed, for on his twentieth birthday young Charles Whiting—himself a legal infant—had the supreme satisfaction of receiving his wife's per-mission to wheel his own legal infant son once round the garden in the perambulator.

Three days before his twenty-first birthday, and six weeks after the fertile Fanny had presented him with a second pledge of her affections, Charles Whiting was killed in a motor accident.

The splendid fortune of £50,000 which would have been his had he but postponed the motor smash for just three days was handed over to Mrs. Montgomery Collins, *née*

Harley, who most generously sent a pair of woolly socks to Mrs. Charles Whiting as a christening present for her infant daughter.

Charles Whiting, being a legal infant and thus unable to make a will, died intestate.

His widow got the chattels, including "Klimbo," the male white cat with blue eyes, which, as such cats always are, was stone deaf, plus £1,000 cash. She also got a life interest in one-half share of the residue, which amounted to £28, the other half share being held in trust for her two infant children.

Apart from this wealth, she received an allowance of £300 per annum from Sir George Whiting and a small army pension.

Sir George made a suggestion to the Rev. Stephen Collins that out of the income arising from the £50,000, which would have gone to Charles had he lived for a further three days, a small allowance might not unreasonably be paid monthly to Mrs. Whiting, but as the reverend gentleman feelingly observed in a dissertation lasting 47 minutes, the spectacle of the daughter of his own "Junior in the Cloth" nibbling like the death watch beetle at the very fringe of a noble financial edifice was unto him (Mr. Collins) as gall and wormwood, to say nothing of the danger of jeopardising the material (as opposed to the spiritual) future of his own grandson.

* * * *

We turn now to a subject which assuredly is uppermost in the minds of most people who are blessed with some of this world's goods, but which is, of course, roundly condemned by those who are less fortunate, namely:

How to soften the crushing burden of Estate Duty.

It is not our intention, of course, to put forward any schemes dealing with the "legal avoidance of Estate Duty." That would be of doubtful social morality and would with justice be frowned upon by those who regard any accumulation of wealth as sinful and all capitalists as criminals.

Our object is merely to indicate how, without deviating one hair's breadth from the straight and narrow course, and without in any way acting covertly, an honest citizen, be he a millionaire or merely a black-coated toiler, may so act that his dependants will not find themselves utterly destitute should he die prematurely.

Most rich men regard life assurance as more or less valueless from their point of view, and in the ordinary course they are right.

In the first place the policy money normally has to be aggregated with the value of the other property passing at death in order to ascertain the rate of Estate Duty payable, and then the policy money has to be subjected to that rate of duty. Obviously, therefore, in many cases there is very little left of the policy money to meet the rest of the duty payable.

But the policy money is not always subject to aggregation, nor is it always subject to the full blast of Estate Duty.

To take but one example, under the Married Women's Property Acts a wife and/or children get an immediate vested interest in a policy of assurance nominated *ab initio* in their favour and thus any such policy constitutes property in which the donor husband never had an interest.

The result of this is that in no circumstances would the policy money be aggregated with the property passing on the death of the husband or father, as the case may be, in order to establish the rate of Estate Duty, if any, payable. The policy money would be treated as a separate estate and the payment of Estate Duty would only arise in cases where the premiums, or some of them, had been paid by the husband.

The subject is too wide and too technical to be dealt with exhaustively in a short article, but the following examples gleaned from our notebook may prove interesting, and may even stimulate the more inquisitive into a close study of the law dealing with assurance policies in relation to Estate Duty.

ILLUSTRATION THREE

Sir Seymour Whiting was a born pessimist, and whenever he found himself faced with the choice of two evils invariably chose both.

Thus, when on December 1, 1942—shortly before celebrating his silver wedding—he consulted his professional accountant, Mr. Greatheart, regarding the wisdom of giving his wife, Lady Amelia, a rope of pearls or a cheque for £40,000, and that gentleman informed him that he would have to live three whole years if the gift were to be rendered free from Estate Duty, Sir Seymour at once replied that the Chancellor of the Exchequer would most certainly extend the "period of vulnerability" to at least fifteen years.

Further, when Mr. Greatheart informed him that the rate of Estate Duty applicable to his estate, assuming he died forthwith, would be 39 per cent., he murmured something to the effect that it would probably be raised to 99 per cent. before he had time to "pack up."

Anyhow, on December 10, 1942, he did present his wife with a cheque for £40,000 as a silver wedding gift; he altered his will by codicil eliminating all legacies, including one of £2,000 subject to legacy duty to the Rev. Stephen Collins, and he appointed his wife sole residuary legatee.

In addition and by way of compromise between three years and his pessimistic estimate of fifteen years he insured his life for seven years in the sum of £20,000 with the Westminster Insurance Company, nominating her under the policy and arranging to pay all the premiums.

Lady Amelia—in the strictest confidence—informed her cousin, Mrs. Reynolds Whiting, what her husband had done for her, and nobody who knows Mrs. Reynolds Whiting will be surprised to learn that her husband, in the interests of domestic tranquility, followed Sir Seymour's example. The only modification upon which he insisted, and which Mrs. Whiting declared to be rather childish, was that instead of taking out one policy with the Westminster Insurance Company for seven years in the sum of £20,000, he took out four policies in the sum of £5,000 each with four separate insurance companies.

Mrs. Reynolds Whiting passed on the glad news to Mrs. Mortimer Whiting, with equally happy results. In this case, however, Mr. Mortimer Whiting took out four policies of assurance on his own life, which he assigned to his wife, agreeing, of course, to meet all the premiums.

Mrs. Mortimer Whiting whispered the secret to her sister-in-law Lucy, the wife of Colonel Lucien Whiting

of the Fifth Lifeguards (Green), and although that gallant gentleman declared himself as perfectly willing to gratify the wishes of his fascinating little wife, by giving her a present of £40,000, he positively refused, on grounds of superstition, to assure his life for seven years in the sum of £20,000.

Lucy—who was known by her intimates as "Lucky Lucy" because she always seemed to hold four aces in her hand when her partner declared "No Trumps" and most of the high cards whenever her opponents were within a few points of Rubber—thereupon decided to take out a policy herself for £20,000 on her husband's life and to meet the premiums out of her bridge winnings. This she did to her own satisfaction and to that of her gallant lord and spouse.

Sir Seymour's pessimism in the matter of the gifts *inter vivos* proved to be justified to some extent, because the "period of vulnerability" was raised from three years to five years, but fortunately not until April 10, 1946, by which time all the four gifts of £40,000 each were free from any risk of Estate Duty.

Likewise, his evil forebodings regarding a probable increase in the rates of Estate Duty proved partially prophetic, the rate in his case being raised from 39 per cent to no less than 65 per cent.

Notwithstanding the fact that on December 10, 1945, the "period of vulnerability" in the matter of the gift to Lady Amelia expired, Sir Seymour decided to continue the short-term policy.

Mr. Reynolds Whiting, acting on his wife's instructions, followed the lead of his cautious cousin, Sir Seymour, as also did Mr. Mortimer Whiting. Colonel Whiting, however, begged his wife to cancel the short-term policy which she had taken out on his life on the ground that the need for such a policy had disappeared, and also because he had a presentiment that if she failed to do so he might die.

Lucy, however, laughingly lulled her husband's fears to sleep by remarking that she had a presentiment that if she did cancel the policy he might live !

Thus, all the policies were kept alive until approximately four months prior to the expiration of the seven years, when a tragedy occurred which cast a gloom over the entire Whiting family.

The facts were briefly as follows :

Early in August, 1949, Mr. Mortimer Whiting flew to Marseilles with the object of negotiating an important purchase of french chalk on behalf of French Chalk By-Products, Ltd., a private company in which he had a controlling interest.

Being a strict teetotaller he was debarred from drinking the very excellent wine of the country and instead, most incautiously, drank their very inferior water, with the result that he developed typhoid fever and died three hours before his wife even learned that he was ill. Sir Seymour, Mr. Reynolds Whiting and the Colonel at once chartered a private aeroplane to take them to Marseilles so that they might make the necessary arrangements for bringing back to this country the body of their unfortunate relative. It is unnecessary to say more. All the world knows of the disaster which overtook them and which added three further weeping widows to the ranks of the Whiting family.

All we are concerned with at the moment is the extent to which the maturing of the short-term policies of assurance helped to assuage the poignant grief of the four ladies. Let us therefore deal with the position of each widow separately.

(A) *Lady Amelia Whiting.*

As Sir Seymour had "nominated" his wife under the policy, he never had any interest whatever in it, and thus although Estate Duty was payable by Lady Amelia on his death because he had paid all the premiums, there was no aggregation of the policy money with the rest of the property passing on the death of Sir Seymour.

The policy money of £20,000 was treated for Estate Duty purposes as a separate estate and the rate of duty was that applicable to an estate of £20,000, namely 12 per cent., and 12 per cent. on £20,000 = £2,400.

Sir Seymour's estate was valued at £350,000 and the duty thereon totalled £227,500, being exactly £91,000 more than it would have been had he died in the year 1942.

Mr. Greatheart, the professional accountant, estimated that after the payment of the Estate Duty, and allowing for losses incurred in raising it, together with the costs of administration, Lady Whiting would receive eventually as residuary legatee a sum approximating £85,000.

(B) *Mrs. Reynolds Whiting* (Isabel).

It will be remembered that Mr. Reynolds Whiting took out four policies on his life of £5,000 each, and "nominated" his wife under each of them.

Thus the policy money under each policy was treated as a separate estate and the rate of duty payable in each case was that applicable to an estate of £5,000, namely, 2 per cent.

The total Estate Duty payable, therefore, was £400 only instead of £2,400 as in the case of Sir Seymour.

Isabel, however—forgetful of the fact that she had ridiculed her late husband for taking out four separate policies instead of only one, as Sir Seymour had done—at once accused the unfortunate Mr. Greatheart of negligence, in that he had failed to advise her late husband to take out ten policies of £2,000 each, instead of four policies of £5,000 each, in which case no Estate Duty whatever would have been payable.

In fact, but for the timely intervention of Lucy Whiting, supported by the Rev. Stephen Collins, it is probable that she would have commenced proceedings against Mr. Greatheart for the recovery of the £400.

Mr. Reynolds Whiting's estate was proved provisionally in the sum of £240,000, but up to the present Mr. Greatheart has—perhaps advisedly—found himself unable to estimate with any degree of exactitude the extent of the fortune to which the heartless Isabel will eventually become entitled.

(C) *Mrs. Mortimer Whiting* (Arabella).

The late Mr. Mortimer Whiting took out four policies on his life of £5,000 each and immediately assigned them to his wife, paying all the premiums thereunder.

In consequence he was deemed to have had an "interest" in the policies during the period elapsing between the date

of the payment of the first premiums and the date of the assignment of the policies to Mrs. Whiting. In this connection it should be remembered that a policy cannot be assigned until after the payment of the first premium and therefore there must of necessity be some intervening " period," be it minutes, hours, days or years.

The length of the " period " is wholly irrelevant. It is the fact that there must have been an intervening " period " which is the all-important consideration.

Thus Arabella was forced to pay Estate Duty on the policy monies at the rate of 80 per cent., namely, the rate applicable to her late husband's estate, after aggregation, and " netted " only £4,000 out of the total sum of £20,000 received from the insurance companies.

Mr. Mortimer Whiting unhappily died a millionaire and to Mr. Greatheart fell the distressing duty of informing the widow that the whole estate would, in all probability, be " swallowed up " in duty.

He based these melancholy forebodings on the following facts :

It chanced that shortly prior to his death Mr. Mortimer Whiting had purchased from Colonel Lucien Whiting a controlling interest in French Chalk By-Products, Ltd., the shares of which had been valued for Estate Duty purposes at £8 per share.

This valuation was 5s. per share less than the price paid to Colonel Whiting, but notwithstanding this fact Mr. Greatheart was convinced that the shares would ultimately have to be sold substantially below the Estate Duty valuation, and having regard to the nature of some of the other important holdings, he gravely doubted whether the estate would realise sufficient to meet the duty in full.

With his accustomed tact and wearing a black tie, Mr. Greatheart broke the news to the afflicted widow, urging her to hope for the best, but nevertheless to prepare for the worst.

(D) *Mrs. Lucien Whiting* (Lucky Lucy).

As has already been stated, it was Lucy herself who assured her husband's life in the sum of £20,000 and paid all the premiums out of her own earnings at the bridge table. She, of course, had an " insurable interest " in her husband's life and on his death no question arose of any liability to Estate Duty on the policy money.

Lucy thus retained the whole of the £20,000, remarking that her husband could not possibly have chosen a more convenient moment to die.

When Mr. Greatheart—whom Colonel Whiting had appointed executor under his will with a legacy of £10,000—read the will, he observed a reference therein to a deed of gift which the Colonel had executed in favour of his wife Lucy in the year 1943, of which he had had no previous cognisance. Under this deed of gift he had made over to her all the valuable contents of his London house, together with a large block of Japanese bonds, which he had purchased " for a song " as a promising speculation, and which had risen in value substantially by the time of his death. The deed of gift, together with the Japanese bonds, had been deposited by Mrs. Whiting with her bankers for safe custody early in the year 1943. Thanks to the timely sale of the French Chalk By-Products shares to Mr. Mortimer Whiting, the Colonel's estate was extremely liquid at the time of his death, and no difficulty was experienced in meeting the Estate Dity and Mr. Greatheart's legacy. In fact that gentleman was able to inform the widow that with what she already had she would undoubtedly be a very wealthy lady.

And Lucy smiled sadly through her tears.

* * * *

Of all those associated with this drama, none was more cast down than the Rev. Stephen Collins.

He could not believe that legacies bequeathed to him under the wills of Sir Seymour Whiting, Mr. Reynolds Whiting and Colonel Lucien Whiting could legally be cancelled by a miserable codicil, and he wrote many long letters on the subject to the executors of these three gentlemen.

When, on top of all, he was informed by Mr. Greatheart that the legacy bequeathed to him by the wealthy Mr. Mortimer Whiting, and which had not been cancelled by any codicil, was unlikely to be met owing to an insufficiency of assets caused by the overwhelming burden of the Estate Duty, his grief knew no bounds and he declared himself to be a broken man. Only by a supreme effort did he find himself able to conduct the memorial service, and even so, he nearly broke down on three separate occasions.

Lucy, whose heart bled for the poor man, and who felt that Sir Seymour and Mr. Reynolds Whiting (lacking the grave responsibilities of her own late husband) had acted harshly by depriving him of his pittance, sent him a pair of silver gilt spurs in memory of the Colonel.

* * * *

Our next and final illustration deals with an aspect of the subject of assurance in relation to Estate Duty which is little appreciated, but which nevertheless is of considerable importance.

It must be admitted that the circumstances surrounding the particular case which we have chosen are perhaps a little unusual, but we have selected it out of many in our notebook because it emphasises very forcibly the niceties of the law.

ILLUSTRATION FOUR

Lieutenant-Commander Charles Whiting, R.N., of the sloop *Artful Alice*, was rendered temporarily blind as a result of the explosion of a mine as he was bringing his vessel into Dover harbour. He was sent to an eye hospital near Felixstowe where he remained completely blind to the world for many weeks, but thanks largely to the skill of Mr. Aberneathy, the celebrated eye specialist, who attended him, he eventually made a complete recovery.

During the early part of his stay in hospital he was nursed by the five daughters of the Rev. Stephen Collins, all of whom had beautiful voices and who ministered to his every need with a devotion which would have melted the heart of an iceberg.

Now the gallant Commander was no iceberg, but on the contrary had a heart of fire, and although he could not see his gentle nurses through the medium of his eyes, and was in fact unaware that there were more than two of them, his mind visualised female forms which placed Venus and Helen of Troy completely in the shade.

When at length the bandages were removed from his eyes, and he saw for the first time the Collins beauty chorus

standing in a row before him, he at once asked to be provided with a pair of dark glasses.

But this was not his main cause of anxiety.

He was informed by the Rev. Stephen Collins (who at that moment entered his private ward) that having offered marriage to each of his five daughters separately, he, the father, demanded to know which of them he intended to lead to the hymeneal altar.

The Commander's halting explanation that it was "a way they had in the Navy" merely added fuel to the furnace and Mr. Collins thereupon decided that the only course open to him was to place the full facts before Sir Reginald Whiting, the father of the Commander, prior to taking more drastic measures.

Sir Reginald, for family reasons, was particularly anxious to avoid even the smallest breath of scandal, and in the hope of easing a very difficult situation offered to make over to the five girls absolutely a policy of assurance on his life for £20,000 payable on his death, which policy he had taken out many years previously and which was now fully paid-up.

This generous gesture was graciously accepted by Mr. Collins, but nevertheless he expressed the opinion that the policy should be placed in trust on behalf of his daughters to guard them against the wiles of insidious male gold-diggers. He further suggested that the terms of the trust should be that the policy should be held by the trustees to maturity; that the policy money—as and when received—should be invested in trustee securities and that his daughters should have a life interest in the income with remainder over to their issue. This proposal having been accepted the policy was duly handed over to trustees in trust for the five ladies, Mr. Collins being named under the trust deed as senior trustee.

Seven years later Sir Reginald died; the policy money became payable and the trustees were called upon to pay the sum of £16,000 by way of Estate Duty.

To say that Mr. Collins was dumbfounded would be utterly misleading. He was incredulous and even angry that a Government department could make such an unpardonable mistake.

In this frenzied state of mind he summoned Mr. Greatheart to the vicarage and instructed that gentleman to visit Somerset House and remain there until he obtained from the authorities a written apology for the mental agony caused not only to himself but more particularly to his five daughters.

Mr. Greatheart listened patiently to the reverend gentleman's outburst and then proceeded to enlighten him regarding the law governing these matters.

He explained that if the fully paid policy of assurance had been made over to the five ladies absolutely, as originally proposed by Sir Reginald in the year 1941, no Estate Duty would have been payable on the maturing of the policy in the year 1949.

He added that it was not the practice of the authorities to attack such policies after the expiration of the "period of vulnerability" (now five years but formerly three years) in view of the donee's power to deal with the policy by way of sale, surrender or otherwise, and that in these circumstances the beneficial interest in the policy was deemed to arise at the time of the gift and not on the death of the assured. Where, however, the policy had been disposed of by way of trust, these considerations did not apply, since the trustees were obliged to retain the policy until maturity and it was only at that date that the benefit accrued with the consequential liability to Estate Duty under Section 2 (1) (*d*) of the Finance Act, 1894.

Mr. Collins was so angry with Mr. Greatheart that he refused to pay his fee of five guineas and insisted on consulting counsel.

When, however, Lieutenant-Commander Charles Whiting, R.N., heard of the incident he at once sent a cheque to Mr. Greatheart, assuring him that he assumed the liability with the utmost satisfaction.

* * * *

And so, once again, we close our notebook.

Executorship law can be likened to a beautifully cut diamond; it presents many facets and we must not linger overlong on any one lest we weary our readers.

Variety is the spice of life and if we touch lightly on a number of the less familiar facets of our subject, recognising how diverse are the interests of those who read, we may chance to serve some useful purpose.

As a gardener friend of the late Dean Hole feelingly remarked on the occasion of the opening of a local flower and vegetable show:

"Different people has different opinions—
Some likes horchids and some likes hinions."

Suggestions Schemes

A recently published report *Suggestions Schemes in Government Departments* (His Majesty's Stationery Office, 1s. 6d. net) is useful to businesses, not so much for the major part of the report, dealing with the history, present position and stimulation of these schemes in the central Government service, but for an appendix covering schemes in commerce and industry.

Examples are quoted of some highly successful schemes run by businesses—and of a number of failures. One Midlands company with some 5,000 employees received an average of more than 3,300 suggestions from them every year before the war, that is, on average every employee submitted a scheme once in eighteen months. What is more important, 25 per cent. of the suggestions were adopted. In this scheme the amount of the award is fixed at from 25 per cent. to 33 per cent. of the first year's savings and the highest award yet paid for a single suggestion is £250. Generally, the businesses which offer generous awards achieve the best results, though successful schemes do exist without this inducement. The way the scheme is run is by no means an unimportant factor, and the report itself offers some suggestions on this aspect.

It is noted that the Inland Revenue normally treat payments of rewards as expenses of the business and that they are not taxable in the hands of the employees.

The report was originally made in 1946 and the data for it relate to 1945: it has now been published because of a general demand. In 1945, the Government Departments did not generally have suggestions schemes, but the Post Office, which was a notable exception, ran a successful scheme.

A note appended to the report states that suggestions schemes have been greatly extended in the Departments since 1945: over 90 per cent. of non-industrial civil servants can now participate in them.

Companies Act, 1948—XXIV

"SPECIAL CLASSES OF COMPANY"

This article is the last in a series on the new company law. The first, a general article on the Companies Act, 1947, appeared in our issue of September, 1947, and subsequent articles have dealt with the following special aspects :

II. Company Balance Sheet and Profit and Loss Account, etc.
III. The Exempt Private Company.
IV. Disclosure of Payments to Directors.
V. Meetings.
VI. Prospectuses.
VII. Auditors.
VIII. Articles of Association & Annual Returns.
IX. Bookkeeping and Accounts.
X. Points to Note.
XI. Accounts of Holding and Subsidiary Companies.
XII. Receivers and Managers.
XIII. Transfer and Transmission.
XIV. The Winding-up of Companies.
XV. The Protection of Minorities.
XVI. Board of Trade Investigations.
XVII. Debentures.
XVIII. Penalties.
XIX. The Companies (Winding-Up) Rules, 1949.
XX. Annual Returns and Returns of Changes.
XXI. The Responsibilities of Directors.
XXII. Share Capital—I.
XXIII. Share Capital—II.

By R. R. COOMBER, Incorporated Accountant.

IN RECOMMENDING THE MORE COMPLETE DISCLOSURE OF information in company accounts, the Cohen Committee accepted the principle that in connection with certain types of company greater disclosure might entail consequences which would be undesirable. Provisions were accordingly inserted in Part III of the Eighth Schedule of the Companies Act, 1948, exempting what are there entitled " special classes of company " from some of the requirements of Parts I and II of the Schedule.

Four classes of company are affected by these provisions to a greater or less extent: banking, discount and assurance companies, and companies of any class prescribed in the national interest by the Board of Trade. For exemption as a banking or discount company, the Board of Trade must be satisfied that the company concerned ought to be treated for the purpose of the schedule as a banking or as a discount company; an assurance company is defined as one within the meaning of the Assurance Companies Acts, 1909-46, complying with the requirements of those Acts as respects the preparation and deposit with the Board of Trade of a balance sheet and profit and loss account. In addition to these, one class of company only has so far been prescribed by the Board of Trade for exemption from certain of the requirements, namely, shipping companies, by the Companies (Shipping Companies Exemption) Order, 1948, of July, 1948. To obtain the benefit of the provisions of this Order the company must satisfy the Board of Trade that the greater part of its undertaking consists directly, or through a subsidiary, of the ownership, operation, or management of ships other than on voyages between ports in the United Kingdom, Eire, the Channel Islands and the Isle of Man.

RECOGNITION AS A BANKING OR DISCOUNT COMPANY

In order to secure the exemptions pertaining to a banking or discount company, application must be made to the Board of Trade by the company concerned, setting forth the facts and the grounds on which the claim is made. The application will be considered by the Board, and the exemption granted or refused. No formal code has been issued by the Board setting out the grounds on which its decisions are based, but it is thought that in the case of a banking company, exemption would be refused in the case of companies carrying on other businesses as well as banking, and it has also been stated that recognition as a bank will be refused to companies with less than a certain (undefined) figure of issued capital.

The decision of the Board on this matter would appear to be final; the Board's recognition as a banking company must, of course, be obtained before the first balance sheet is issued on this basis.

THE EXTENT OF EXEMPTIONS

The exemptions from disclosure provided by the Act and the Shipping Companies Order may be summarised in three grades as follows:

1. *Exemptions common to all special classes of company.*

(*i*) *The Balance Sheet.* Exemption extends to :

(*a*) the provisions of paragraph 4 of the Eighth Schedule, except as regards the classification of fixed and current assets (the actual wording of the exemption is not entirely without ambiguity; it is to the effect that paragraph 4 is not to apply except " so far as it relates to fixed and current assets "). The method used to arrive at the amount of the fixed assets under each heading should accordingly be stated;

(*b*) the provisions of paragraph 5 which sets out the method to be used in certain cases in arriving at the amount of fixed assets, disclosure of depreciation provisions, provisions for renewals, and the like;

(*c*) the provisions of paragraphs 6 and 7 which otherwise require the statement under separate headings of capital reserves, revenue reserves, and provisions, and a statement of the movements therein.

(ii) *The Profit and Loss Account.* Exemption from disclosure extends to :

(*d*) the amount charged to revenue by way of provision for depreciation, renewals or diminution in value of fixed assets ;

(*e*) any additions or withdrawals from reserves or provisions.

2. *Exemptions applicable to Banking, Discount and Assurance Companies only.*

In addition to the exemptions above mentioned, non-

disclosure is permitted of the following:

(i) *The Balance Sheet.*

(*a*) The aggregate amount of bank loans and overdrafts ;

(*b*) the aggregate value of the company's investments, other than trade investments.

(ii) *The Profit and Loss Account.*

(*c*) The whole of the remaining requirements of paragraph 12, other than the dividends paid and proposed. Exemption thus includes non-disclosure of debenture and loan interest, details of the basis of the amount of the charge for taxation, amounts provided for the redemption of loans and capital, and the amount of investment income ;

(*d*) the statement of the method by which depreciation is provided for, or disclosure of the fact that depreciation is not provided ;

(*e*) the effect of transactions of a sort not usually undertaken by the company or otherwise of circumstances of an exceptional or non-recurrent nature, or of any change in the basis of accounting.

3. *Exemptions applicable to Assurance Companies only.*

In the third group of exemptions as next considered, the application is limited to assurance companies as defined above. This group is in addition to those already noted, and such companies are excused disclosure of :

(i) *The Balance Sheet.*

(*a*) The statement under separate headings of the aggregate amounts respectively of the company's trade investments and quoted and unquoted investments other than trade investments; also in connection with quoted investments where there has or has not been granted a quotation on a recognised Stock Exchange ;

(*b*) charges on the assets of the company to secure the liabilities of any other person ;

(*c*) the general nature and amount of contingent liabilities ;

(*d*) the amounts of contracts for capital expenditure not provided for ;

(*e*) the requirement that where any of the current assets have not in the opinion of the directors a value at least equal to that shown, that fact must be stated ;

(*f*) the basis on which the amounts set aside in the balance sheet for United Kingdom income tax is computed.

(ii) There are no exemptions granted to assurance companies in regard to their profit and loss account other than those already noted as being shared with other special classes of company.

Disclosure by way of Note.

For banking, discount and assurance companies, it is provided that where in the balance sheet capital reserves, revenue reserves, or provisions (other than provisions for depreciation, renewals or diminution in value of assets) are not stated separately, any heading stating an amount arrived at after taking into account such a reserve or provision is to be framed or marked so as to indicate that fact. Again, the profit and loss account of such a company must indicate by appropriate words the manner in which the amount stated for the company's profit or loss has been arrived at. So that where the profit and loss account includes a statement of net profit after transfers have been made to or from reserves or provisions, the description in words against the opening balance brought into the account as the profit for the year should indicate that such transfers have been made, but without necessarily disclosing the amounts involved.

4. *Disclosure under the Shipping Companies Exemption Order.*

The exemption in favour of shipping companies is subject to a note appearing on the balance sheet as required by the Order, indicating that the accounts have been prepared in accordance therewith and that certain specified information, which would otherwise need to be included, has been omitted; the profit and loss account must indicate whether the profit or loss has been arrived at before or after providing for depreciation, renewals, or diminution in the value of fixed assets. Where (*a*) undisclosed transfers have been made to profit and loss account from reserves or from a provision no longer required for its original purpose (particulars whereof are to be sent to the Board of Trade and Ministry of Transport), (*b*) a transfer has been made from profit and loss account to reserves or to provisions (other than for depreciation, etc.), or (*c*) where the aggregate of dividends paid or proposed for the period exceeds the aggregate of profits earned for the period, and profits brought forward from previous periods, but not including transfers made in the period from reserves or provisions, the facts must be clearly indicated in the accounts by note or otherwise. The balance sheet headings must also indicate the fact where capital reserves, revenue reserves, or provisions are not stated separately.

THE REQUIREMENTS OF THE NINTH SCHEDULE

Part III of the Eighth Schedule thus sets out fairly extensive exemptions from full disclosure, and it became necessary to introduce into the form of audit report set out in the Ninth Schedule words which would in appropriate cases indicate that, where full disclosure had not been made, this was in accordance with the permitted exceptions. It is therefore provided by the Ninth Schedule that the audit report on the accounts of exempted companies shall indicate whether or not they give a true and fair view of the state of the company's affairs at the end of its financial year in the case of the balance sheet, or of the profit or loss for the financial year in the case of the profit and loss account, " subject to the non-disclosure of any matters (to be indicated in the report) which by virtue of Part III of the Eighth Schedule are not required to be disclosed."

There has been evidence in published accounts of some difference of opinion on the interpretation of this direction in the Act, as to the responsibility of the auditor where advantage has been taken of the non-disclosure provisions. One reading of the requirement would simply imply that where there is any non-disclosure, the audit report should itself provide the information withheld; this, of course, would be an unreasonable interpretation. An alternative meaning appears to be that the auditor should indicate broadly the information withheld, for example, details of reserve movements, but without giving the amounts. This would be a reasonable interpretation if the degree of non-disclosure varied between, for example, different

banking companies, or different insurance companies, and the audit report would thus indicate the instances in which transactions had occurred of the nature in respect of which non-disclosure was permitted, and which would therefore affect the " true and fair view " given by the accounts.

An alternative practice, which was adopted in the accounts of certain insurance companies whose accounts were presented during the autumn months of 1948, was to give the full information required by the Act as for the normal non-privileged companies, thus enabling the audit report to be given in the normal phrases and without the qualification as to non-disclosure of the prescribed matters. Again, in the case of at least one bank whose accounts were presented about this time, specific reference was made in the audit report to the fact that, as authorised by the Act, the accounts did not show the aggregate amount of reserves, the movement therein and the market value of investments. In the audit report of another assurance company, the Prudential, the matter is dealt with by a phrase in the audit report stating that the accounts " give the information required by the Companies Act, 1948, in the manner so required, which in relation to assurance companies is modified in regard to reserves and provisions and aggregate value of quoted investments by Part III of the Eighth Schedule to that Act."

The more generally accepted interpretation of the requirement in relation to the audit certificate of these types of company has resulted in the accounts being prepared in accordance with the Eighth Schedule, as modified by Part III, so as to give the minimum amount of information permitted by the provisions, with a note in the audit report to the effect that the accounts " give the information required by the Companies Act, 1948, in the manner authorised " for a banking company or an assurance company, as the case may be, and that the accounts give a true and fair view of their subjects, " on this basis." A reader of the accounts is thus thrown back to the Eighth Schedule, Part III, if he wishes to satisfy himself that any particular matter on which information is lacking is covered by the permitted exemptions. It is of interest to note, further, that this procedure is not permitted in the accounts of shipping companies, since it is directed by the Order that a note must appear on the balance sheet of a company to which the Order applies that the company is exempt from disclosing certain specified information, and the audit report on the accounts of such a company would contain a corresponding phrase or reference.

Retirement of Mr. A. A. Garrett, M.B.E., M.A.

THE SOCIETY OF INCORPORATED ACCOUNTANTS HAS IN sixty-three years had only two Secretaries, Sir James Martin and Mr. A. A. Garrett. On December 31 Mr. Garrett's memorable Secretaryship of thirty years came to an end. His friends throughout the world will be united in good wishes for his retirement and in warm appreciation of the great services which he has given to the accountancy profession.

Mr. Garrett has devoted himself entirely to the Society. He joined its staff in Gresham Street in 1909, became Assistant Secretary in 1913 and was appointed Secretary in 1919. He has seen the membership increase from 3,000 to over 8,000, with a corresponding growth in the number of students, and he has done much to extend the work of Branches and District Societies. The acquisition of the Incorporated Accountants' Hall in 1929, the Fiftieth Anniversary Celebrations in 1934, the Oxford and Cambridge Courses of the Society (the first of their kind), the Research Committee (again a pioneer body in the accountancy profession) and the University Scheme owe much of their success to his enthusiasm and organising powers. He has taken a great part in the work of the Incorporated Accountants' London and District Society and of the London Students' Society, which to-day have a combined membership of over 6,000.

The warm affection and respect which Mr. Garrett has earned for himself depend, however, quite as much on what he is as on what he has done. Those who have worked with him know of his modesty and his complete unselfishness. It has been a pleasure to travel anywhere with Mr. Garrett, because everywhere there were friends who knew his qualities and were grateful for his kindnesses to them. Mr. Garrett has travelled far to represent the Society. He has been the welcome guest of every Branch and District Society in this country on many memorable occasions ; he has often visited the U.S.A. and Canada and he has represented the Society at International Congresses at Amsterdam, New York and Berlin. At the London International Congress in 1933 he was Assistant Secretary. Mr. Garrett has been in Australia representing the Society at the Australian Congress on Accounting. He and Mrs. Garrett are also visiting India, New Zealand and South Africa. The world-wide organisation of the Society is to a considerable extent based on the fact that so many members throughout the world know Mr. Garrett as a personal friend.

The Society, as well as Mr. Garrett, has gained one special advantage from his travelling propensities—his marriage in 1928 to Miss Mildred Starrett, of Athol, Massachusetts. Mr. and Mrs. Garrett, at their flat in

King's Bench Walk and at their country home at Ayot St. Lawrence, have given the kindest and most thoughtful hospitality. They have together served the Society in many ways and they are together held in the warmest regard by the many they have helped.

For students, Mr. Garrett has always had special concern, partly because he knows their difficulties. Mr. Garrett was educated at Owen's School, qualified as a Chartered Secretary and had a distinguished academic career at the London School of Economics, King's College, London, and Christ's College, Cambridge. Much of that academic work was done late at night and early in the morning at a time when he was doing more than a full day's work for the Society. Mr. Garrett has always been a worker of great intensity and passion. Perhaps the heaviest burden fell on him during the war years. With a depleted staff, he kept the organisation intact, he edited ACCOUNTANCY, he dealt with the innumerable problems of the war years and he yet had time to help members with their individual difficulties. The Hall was partially destroyed by enemy action in July, 1944, and the heavy burden of reorganisation fell upon him. His capacity for administration has been great. It has been marked by an unremitting attention to detail and an insistence on thoroughness through which the guiding light of principle and purpose has always shone. No standard less than perfection was tolerated in any document emanating from the office. The smooth running of every activity of the Society, from the half-yearly examinations to the fiftieth anniversary dinner in Guildhall, was ensured by a zeal and energy which for Mr. Garrett took no account of office hours.

All Incorporated Accountants and students who have met Mr. Garrett personally—and their numbers are legion—are aware of his genuine goodwill and anxiety to help in every individual problem. The letter of the law and its legalistic interpretation have no attraction for him. He has always been reluctant to refuse any request. But in a matter of principle concerning the interests of the Society he could make it plain in the most charming way that no concession was possible.

During the war of 1914-1918 Mr. Garrett served in the Royal Naval Reserve, from which he later retired in 1931 with the rank of Paymaster-Commander and with a fund of gentle Navy stories about Zanzibar and Simonstown. He became a M.B.E. (Military Division) in 1934. He is a Past Master of the Incorporated Accountants' Lodge. He has served as organist at his parish church and elsewhere, displaying that characteristic blend of thoughtfulness, slight anxiety, impetuosity and sweet reasonableness so dear to his friends.

The Council of the Society has recently elected him an Honorary Member : this honour, seldom conferred, is given in recognition of exceptional services to the Society, such as have been rendered by Mr. Garrett and his friends,

the late Sir James Martin and the late Lord Stamp. The Branches and District Societies showed their appreciation of his services by presenting Mr. Garrett in 1934 with his portrait in oils by Mr. John A. A. Berrie. The portrait, showing Mr. Garrett in academic costume, was afterwards hung in the library at Incorporated Accountants' Hall. The speech by Sir James Martin on that occasion included a remark which will be echoed by many to-day : " During all the years I have known Mr. Garrett I have never heard from him a malicious or slighting remark with regard to any person whatever."

Mr. Garrett is retiring with his energies undiminished and with his sympathies still enlarging : he will have much work yet to do for the accountancy profession. He is happy in the assurance that the traditions of friendship which he has maintained will be carried on by his friends and colleagues, Mr. Ian Craig, Mr. Evan-Jones and the staff of the Society which has supported him so loyally in all his work.

A Society derives its character in no small measure from the character of its Secretary. The Society of Incorporated Accountants has been happy indeed to have as its Secretary for so many eventful years one notable for the faithfulness of his service—a faithfulness distinguished by the integrity of his character and the quality of his friendship.

Accountancy and Auditing in Sweden

BY PER V. A. HANNER, D.H.S.,

Lecturer at the Stockholm School of Commerce

THE ACCOUNTANCY PROFESSION

AUDITS HAVE BEEN CONDUCTED MORE OR LESS REGULARLY IN SWEDISH businesses for about three hundred years. As a profession, however, auditing or public accounting did not develop in Sweden until the end of last century. Before then auditors were generally retired book-keepers or works managers who undertook auditing as a part-time job in their old age. Industrialisation did not move really quickly until the latter part of last century. With the great increase in the number of large industrial concerns which then took place, there arose a demand for accounting experts. In 1895 and 1910 Companies Acts were passed requiring every company to have its accounts audited annually. But the Acts were silent on the question of the professional qualifications of the auditors.

In 1912 the Chamber of Commerce in Stockholm decided that there was need for some official credentials to be available for auditors, and began to designate accountants as "authorised accountants" (*auktoriserade revisorer*). The other Chambers of Commerce in the country—there are twelve such chambers, one in each of the twelve districts into which the country is divided for the purpose—followed the example of Stockholm. A central committee in Stockholm sees to it that the requirements of the various Chambers of Commerce are in exact agreement; this committee examines all applications.

The following requirements must be fulfilled before a person can be designated an authorised accountant. He or she must:

(*a*) be a Swedish citizen;
(*b*) be at least twenty-five years of age;
(*c*) have a Bachelor of Commerce degree with very good results in the subjects of Accounting, Finance and Business Law;
(*d*) have worked five full years in the profession as an assistant.

The B.Com. degree is granted only by the two Schools of Commerce in Stockholm and Gothenburg after a three-year course of study on a university level. The degree is approximately equivalent to the B.Com. of the London School of Economics.

Before authorisation, the accountant must take an oath to maintain secrecy and to exercise his profession with care. An authorised accountant is not permitted to engage actively in any kind of business outside the field of public accounting, nor can he hold any salaried position except that of teacher, and for this special permission must be obtained. These rules safeguard the independence of the accountant and mean that he must limit his business interests to the field of professional public accountancy. If he leaves the profession, the authorisation is immediately revoked.

Because of the high requirements for authorisation, especially the need for very high grades in certain subjects in the university degree, the number of men entering the profession each year is very limited. The total number of authorised accountants in the whole of Sweden is now only 210. Two-thirds of them are members of the Association of Authorised Accountants (*Föreningen Auktoriserade Revisorer*).

Even taking into consideration that the population of Sweden is only about 6.9 million, or roughly one-seventh that of the United Kingdom, it is obvious that the present number of authorised accountants is insufficient to meet the demand for auditors and qualified accountants in this highly industrialised country. Small companies often use less qualified people and there exists a great number of professional accountants who are not authorised. The Chambers of Commerce throughout Sweden have instituted a qualification lower than that of "authorised accountant." The requirements demanded of those seeking this qualification, that of "approved auditor," are much less exacting. There are now about 350 approved auditors. As the number of authorised accountants will probably increase considerably in the future, they may be expected to take an increasing share of accounting and auditing business.

AUDITING AND THE COMPANIES ACT

The most important piece of legislation regarding auditing is found in the Companies Act of 1944.* This Act brought about a great many changes and improvements in accounting and finance in Swedish businesses. In the auditing field the new law, though not unimportant, has not materially changed the general position of the auditor, as determined by the Acts of 1895 and 1910. In fact, these old laws were based on the practice that had developed more than a century ago.

There are approximately 30,000 companies in Sweden. The company is by far the most important form in which business is conducted.

The Companies Act requires that in every company one or more auditors should be elected by the shareholders at the annual meeting. The appointment generally holds for one year, but the auditors are usually re-elected from one year to the next. In companies with a share capital of more than 500,000 kronor (£35,000) at least two auditors are to be elected. In practice, the largest companies often have three or more auditors. If two auditors are to be elected, a minority group of shareholders, representing one-third of the total voting power at the meeting, has a right to elect one of them. A minority group, representing at least one-tenth of the total share capital, has also always a right to call upon the County Council to appoint an extra auditor, but this possibility is very seldom used.

An auditor must be a Swedish citizen and have "such experience in accounting and knowledge of economic conditions as his appointment calls for with regard to the company's activities." A person is not qualified for appointment if he is an employee of the company, or a dependant or near relative of any director or high accounting officer. If the company has a share capital of 2 million kronor (£140,000) or more, or if the company's shares or debentures are quoted on the Stockholm Stock Exchange, at least one of the auditors must be an authorised accountant.

An auditor must always be an individual. Swedish accountants often work together in partnerships, but every appointment must be given to a particular partner, who is alone responsible.

The reasons why a company must have several auditors are best seen by a reference to the work and responsibilities of the auditors. The law declares that the auditors shall "investigate

* A complete English translation of this Act has been published by a Swedish bank, A.B. Svenska Handelsbanken, and can be purchased from its head office in Stockholm. The title of the translation is *The Swedish Stock Corporation Act.*

the administration of the Board and the managing director and also examine the company's accounts." This rule, which is based on a century-old tradition in practice and law, gives the Swedish audit an unusually broad scope and, obviously, calls for high qualifications on the part of auditors. Not only must they understand accounting but they should also be able to judge as business men the appropriateness of measures and decisions taken by the Board and the management. Small mistakes need not give rise to open criticism from the auditors, but the auditors should tell the shareholders in their report if they consider a decision by the Board in a question of major importance to the company has been definitely unwise, or if they find that management is obviously careless or its members are taking advantage of their position to profit for themselves at the expense of the company.

Even a professional accountant with his wide business experience cannot be expected to be an expert in all branches and aspects of business. This has led to the appointment of "laymen auditors," who are not expert accountants but are considered qualified for the managerial audit of the company in question. Laymen auditors may be prominent business men in other businesses, major stockholders, lawyers, bankers and so on. When two or more auditors are elected, generally one of them is an authorised accountant and the others are "laymen." While in principle the law expects every auditor to take part in the whole audit, it is customary to divide the work, so that the professional accountant alone takes care of the accounting part, which he performs with the help of his assistants. The managerial audit, however, is made by all the auditors together.

The law gives the auditors unlimited right to examine all records and documents of a company and to get all necessary information from directors and executives.

The ultimate result of the audit is the audit report and because this also gives a fair idea of the special duties of the auditors according to the Companies Act, a translation of an audit report is provided below.

The Board of directors is required by the law to present to the annual meeting an annual report, the most important parts of which are the balance sheet and the profit and loss account. These accounts are tentative, however, because the shareholders have the right to approve or amend them. (After approval, the accounts are registered with a Government office and become public documents.) The shareholders in general meeting also have the right of determining the amount of dividend to be paid, and the annual report must contain proposals regarding the way in which the profit balance is to be used. Further, the shareholders must decide at the meeting whether or not to declare that the directors have duly discharged their duties for the year. In all these decisions the shareholders are to be guided by the audit report, which is laid before the meeting together with the annual report of the Board.

The following is an example of an audit report, where the managerial audit and the examination of accounts have not given rise to criticism :

AUDIT REPORT

We have been appointed at the annual general meeting of the XYZ Company to examine, in the capacity of auditors, the administration and accounts of said company and herewith submit our report for the year 1948.

We have examined the annual report, the minutes of general meetings and board meetings, and other documents giving information about the company's financial position and administration and also taken such other measures as we deemed necessary for our examination.

As we have no objections to make regarding the accounts submitted to us, the books and records of the company or the verification of its assets, or otherwise concerning the management of the company's affairs, we recommend the shareholders :

to approve the balance sheet as at December 31, 1948, proposed by the Board ;
to use the profit of the year in accordance with the Board's proposals, which include due appropriations to the legal reserves ;
and to declare that the members of the Board have duly discharged their duties during the year 1948.

Stockholm, February 20, 1949.

A. A. B. B.
Authorised Accountant.

If a company has subsidiaries, the auditors must examine the consolidated balance sheet, and this should also be mentioned in the audit report.

The auditors must sign the balance sheet and the profit and loss account, indicating thereon whether these documents do or do not agree with the company's books of account.

AUDITING TECHNIQUE

There do not seem to be any major differences between British and Swedish practice regarding auditing technique, working papers and the like. But there is some difference in the purpose of the working papers and their place in the final audit.

It should be noted that Swedish accountants, or rather their assistants, perform much detailed auditing. From the point of view of the managerial audit, it is advantageous to follow closely what is going on during the year. Swedish accountants also look upon detailed audits as a good way to employ their men during slack periods. If the elected auditors do not perform the detailed audit—and that is the usual situation in the large companies, which generally have their own internal auditors—the internal auditors report to the elected auditors.

The "year-end audits" ("balance sheet audits") have partly another purpose in Sweden than in Great Britain. Whereas the British auditor states whether the accounts give "a true and fair view" of the company's affairs, his Swedish colleague only indicates that he has "no objections to make regarding the accounts." The Swedish year-end audit is made mainly to enable the auditors to express their opinion on the three points at the end of the report, namely : (1) whether the accounts could be approved ; (2) whether a dividend could be paid and in what amount ; (3) whether the members of the Board can be declared to have discharged their duties.

(1) To be able to decide whether or not to recommend approval of the balance sheet and the profit and loss statement, the auditors have to

(*a*) verify the existence of the different assets and liabilities ;
(*b*) examine the valuation of the balance sheet items ; and
(*c*) examine the formal presentation of the accounts.

With regard to (*a*), British and Swedish accountants seem to hold approximately the same standards. Circularisation of accounts receivable is often done but is not a standard procedure. The auditors are generally not present at stock-takings.

As to (*b*), the valuation of assets and liabilities, the auditors first have to establish that there is no conflict with the rules of the Companies Act and the Accounting Act of 1929. The most important of these rules require that stock-in-trade may not be carried at a value higher than "cost or market, whichever is the lower" and fixed assets not at a value higher than cost less accumulated depreciation. These are maximum values, however. Undervaluation is permitted both by the laws just mentioned and—to a certain extent—for tax purposes. It has long been generally accepted by Swedish business men, accountants and legislators that inflationary "paper profits" ought not to be reported as real profits but should be eliminated from the profit and loss account and used for forming secret reserves. Most Swedish companies that carry on a profitable business have substantial secret reserves. The major responsibility of the auditors with regard to secret reserves is to ascertain that if they are utilised the fact is properly disclosed. If it is not mentioned

in the annual report of the Board—which it should be according to the law—the auditors must tell the shareholders about it in their audit report.

With regard to (*c*), the formal presentation of the accounts, the Companies Act contains prescribed but rather flexible forms to be used by all companies. The auditors must, of course, see that these forms are duly used.

(2) To assess the appropriateness of a proposed dividend, the auditor must take into consideration the surplus shown in the balance sheet, and if his own opinion on valuation and profit determination is not in accordance with that of the company (for example, because of changes in the secret reserves), he must make his own adjustments in order to find the "real profit" on which he can base his judgment. He also naturally must consider other pertinent data, such as the working capital position, future needs for capital and so on.

(3) The managerial audit is based on many things, among them minutes of Board meetings, visits to the plant, review of internal control, budgets and cost accounting. It also calls for a detailed analysis of the profit and loss account.

The Australian Congress on Accounting

By A. A. GARRETT, M.B.E., M.A.

THE BRITISH EMPIRE, THE COMMONWEALTH of Australia and the sovereignty of the six States are the most dominant influences in Australian life. To Australians, Great Britain is always "home": this is not a platitude but a force of great significance which affects Australian sentiment, thought and activity in all spheres. It was against this happy background that the Australian Congress on Accounting took place in Sydney from November 21 to 25 last.

Much imagination was shown by those who conceived the idea of holding the Congress, and the idea was made effective by foresight, careful organisation and a desire to bring together representatives of all the bodies of accountants in Australia and visitors from overseas. The Congress was fortunate in having as its President Mr. Frank H. Way, of Sydney, who is also the President of the Institute of Chartered Accountants in Australia. He was supported by four Vice-Presidents and by the Presidents of the other sponsoring bodies, Mr. E. A. Peverill (Melbourne), Commonwealth Institute of Accountants, Mr. R. E. Gregory (Melbourne), Federal Institute of Accountants, Mr. Conrad F. Horley (Sydney), Association of Accountants of Australia, and Mr. Walter Scott (Sydney), Australian Institute of Cost Accountants. More than 1,200 accountants participated in the Congress, many of whom had travelled long distances to be present, and these included the following visitors from overseas: Mr. Gilbert Shepherd, Past-President of the Institute of Chartered Accountants in England and Wales; Mr. R. W. Bankes, Secretary of the Institute; Mr. F. Sewell Bray, Senior Nuffield Fellow, Cambridge University; Mr. R. D. Brown, President of the New Zealand Society of Accountants, and Mr. G. J. J. Feil, President of the New Zealand Institute of Cost Accountants; Mr. H. G. Large, London, a member of the Society of Incorporated Accountants, who was on a private visit to Australia; and Mr. A. A. Garrett, Secretary of the Society of Incorporated Accountants. Mr. J. March Hardie (Sydney) represented the Institute of Accountants and Actuaries in Glasgow, Mr. H. W. Barrett (Sydney) the Association of Certified and Corporate Accountants, and Mr. M. V. Anderson (Melbourne) the Institute of Cost and Works Accountants, England.

Mr. Way presided with dignity, friendliness and modesty and an excellent spirit pervaded the Congress and all the proceedings. The President and the Vice-Presidents of the Congress and Presidents of sponsoring bodies were assiduous in their duties and in their courtesy and hospitality to visitors.

The programme of the Congress was set forth succinctly in an attractively printed booklet, which included photographs of those mainly responsible for the Congress and of the visitors, and a coloured map of Sydney. Good printing and lay-out were also a feature of the copies of the papers and of the menu card at the dinner. The items in the programme presented a good balance of serious business and of social functions on the one hand, and of organisation and spontaneity on the other. Each of the visitors from overseas was invited to take a definite part in the proceedings, a courtesy which afforded them much pleasure.

At the opening of the Congress in his parlour at the Town Hall, the Lord Mayor of Sydney received the President, principal officers of the Congress and visitors, and his welcome was warmly acknowledged by the President, by Mr. Gilbert F. Shepherd (Great Britain), by Mr. R. D. Brown (New Zealand), and by Mr. R. E. Gregory (on behalf of other States). The first general function was a luncheon at which 900 members and visitors were present and at which the principal guest was His Excellency, The Governor of New South Wales, Lieut.-General John Northcott, C.B., M.V.O. In a brief speech the Governor expressed his great pleasure that the Congress was being held in the capital city of his State, and, in commending the work of the accountancy profession in Australia, he extended his best wishes to the Congress and welcomed the visitors from overseas. Mr. A. A. Garrett (Great Britain), Mr. R. D. Brown (New Zealand), and Mr. C. H. T. Evans (Western Australia) had the honour of responding, and the visitors were subsequently presented to His Excellency. In the evening there was a large reception given by the Presidents of the sponsoring bodies and their ladies.

On the opening day, immediately after lunch, and without further formality, the Congress got down to business. There were seven papers, which covered contemporary aspects of accountancy and were characterised by a forward-looking view and a realisation of the evolutionary character of the work of the profession. The technical sessions were held in the convenient Assembly Hall, equipped with an excellent loud-speaker and electric recording system (in lieu of reporting). The papers having been printed in advance, each author was allowed twenty minutes to present his subject and was followed by three official commentators who were allotted collectively thirty minutes: a general discussion ensued and the author made a brief reply. The discussions reached a high level and the procedure enabled the audience to maintain a keen interest throughout the proceedings.

The opening paper was on *Accounting Standards* by Mr. A. A. Fitzgerald (Melbourne), who emphasised the importance of accounting standards as a less rigid conception than accounting principles, valuable though principles were. Mr. F. E. Trigg (Sydney) discussed *Contemporary Auditing Practice*, and after reviewing

practice in Great Britain, U.S.A. and Australia, urged a broader view and progressive procedure in regard to auditing, and claimed that a greater measure of independence and statutory authority should be enjoyed by auditors in Australia. *The Future Rôle of the Accountant* was the subject of a public address by Mr. Gilbert Shepherd (Great Britain). In a clear-thinking speech he made a wide review of the rôle of the accountant (*a*) in public accountancy (*b*) in industry, commerce and other spheres, and then built up a synthesis leading to the consideration of technique, training and education. Mr. Shepherd was of opinion that in developing its technique, the profession should continue to recognise that its art is a practical one. At the same time he hoped that, subject to that consideration, there could be an effective link between accountants and economists. At a subsequent session, Mr. F. Sewell Bray (Great Britain) discussed *The Influence of Economic Ideas on the Formal Statement of Accounts and the Principles of Accountancy Measurement* and outlined a structural design of accounts, grounded on primary economic concepts and compatible with modern tenets of accounting : he believed that such a structural design would be directly related to the recently developed technique of social accounting. In a paper on *New Perspectives in Cost Accounting for Management*, Mr. Walter Scott (Sydney) brought to bear a wide fund of knowledge and practical experience upon his subject, and, in representing the importance of cost accounting, emphasised that it was no substitute for good management. An interesting paper on *The Widening Responsibilities of Accountants* was submitted by Mr. T. A. Hiley (Brisbane). Mr. Hiley reviewed various branches of professional work in a modern context and set forth some professional duties in the light of social responsibility (free from any political considerations whatsoever). The final paper was on *The Status of the Accountant in Australia* by Mr. N. S. Young (Adelaide), who handled a difficult subject with discretion and clarity. He favoured a measure of the registration of accountants in the States of the Commonwealth on common lines, designed to give more effective control of the profession, and at the same time to preserve the status and authority of the recognised bodies of accountants. The subject inevitably called forth varying views in the course of the discussion—views which were expressed with moderation and an appreciation of the difficulties of the problem.

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At the Congress dinner Mr. Frank Way was in the chair and at an early stage the toast of the King was honoured with much enthusiasm. "The Accountancy Profession" was proposed by Professor D. B. Copland, C.M.G., D.SC., Vice-Chancellor of the Australian National University (Canberra) and by Mr. R. J. F. Boyer, M.A., Chairman of the Australian Broadcasting Commission. Mr. Way in his response referred to the history of the profession in Australia. Mr. O. H. Paton (Sydney), a Vice-President of the Congress, proposed the guests in cordial terms and referred to the presence of His Excellency, The Right Hon. E. J. Williams (High Commissioner for the United Kingdom in Australia), and of The Right Hon. Sir John Latham, G.C.M.G., Chief Justice of the High Court of Australia, and of the visitors from overseas and other official guests. The Right Hon. E. J. Williams, Sir John Latham and Mr. R. W. Bankes, C.B.E., responded. Mr. Bankes referred to the happy friendships the visitors had renewed and formed and their great pleasure at being invited to the Congress. Before the proceedings concluded Mr. A. A. Garrett, M.B.E., proposed the health of the President, Mr. Frank Way, and expressed to him the congratulations of the members and visitors upon his able conduct as President and upon the success of the Congress. The toast was received with enthusiasm, and in his acknowledgment Mr. Way referred to the support of the Vice-Presidents and to the work of the secretaries to the Congress.

Following the concluding session of the Congress, Mr. E. A. Peverill, President of the Commonwealth Institute of Accountants, proposed a resolution of thanks to Mr. Frank Way for presiding at the Congress, and to the secretaries for their able services and splendid organisation which had enabled the Congress to be a complete success. Mr. Gilbert Shepherd, supported by Mr. R. D. Brown, expressed the warm thanks of the visitors for the welcome accorded to them and for the hospitality which they greatly enjoyed. He said that they and their ladies were greatly indebted to the Ladies' Committee of the Congress, who had very kindly arranged for the entertainment of visiting ladies, including a visit to the National Park, a theatre party and a cruise of the harbour.

The members and visitors were greatly impressed by the excellent organisation of the Congress and thanks are particularly due to Mr. C. W. Andersen (Melbourne), the General Secretary, Mr. B. L. Horsley (Sydney), Assistant Secretary, Mr. S. J. Walton (Sydney), Secretary to the Executive Committee, and Mr. A. E. Dent (Sydney), Secretary to the Accommodation Committee. All the secretaries, amid many pressing duties in regard to the Congress, gave much time to receiving the visitors on their arrival in Australia and to entertaining them and introducing them to the President and members of the Congress.

After the Congress was over a day was given to sport and there were tennis, golf and bowls matches. Mr. Bankes, Mr. Garrett and Mr. Brown were present at the conclusion of the tennis and golf matches and Mr. Bankes presented the prizes to the winners of the tennis tournament.

During the Congress there was a comprehensive exhibition of accounting machinery and office equipment in the Town Hall.

The generosity of Australian hospitality, both at the Congress and privately, was shown on every hand to the visitors, who greatly enjoyed seeing the beauties of the capital cities, including the delightful suburbs and charming domestic architecture and gardens which are a proper source of pride to Australians.

With complete assurance, it can be said that the Congress has substantially advanced knowledge in the accountancy profession both in Australia and elsewhere, and all who were present were stimulated by new thoughts and fresh prospects as regards the future of accountancy.

In addition to the proceedings at the Congress, the visitors were kindly entertained in several of the capital cities at luncheon or dinner by the Presidents, State Presidents and Councils of the various Institutes.

"Accountancy"

INDEX AND BINDING

VOLUME LX OF "ACCOUNTANCY" COMPRISES twelve issues, January-December, 1949. The index is in preparation and, as in past years, will be sent only to those readers who ask for a copy.

T. Whittingham & Co., Ltd., Pixmore Avenue, Letchworth, Herts, will bind subscribers' copies sent to them at that address at a charge of 15s., or will supply a binding case at 5s., post free. The binding case will be grey with white lettering.

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For readers taking advantage of these arrangements the title-page and index will be supplied with the binding case. Others are asked to send their requests for the title-page and index to the Editor of ACCOUNTANCY at Incorporated Accountants' Hall, who will send them as soon as copies are available.

Notes from Across the Atlantic

By CECIL A. ELLIS, A.S.A.A., C.A. (Canada)

North American Reactions to some Suggestions of Sir Frederick Alban

MENTION IN NORTH AMERICA OF THE NAME of Sir Frederick Alban, immediate past-President of the Society of Incorporated Accountants, revives happy memories of his visit to us during the autumn of 1948. Such mention occurs in the October, 1949, issue of *The Canadian Chartered Accountant*; another is to be found in *The Journal of Accountancy* (New York) for August, 1949. The former periodical reproduces a paragraph from *The Accountant* of London, commenting upon the reaction of some British financial editors to Sir Frederick's plea (contained in his speech at the last annual general meeting of the Society) for less complication in accounts required under the new British Companies Act; the latter refers to his comments (also given in the speech) upon the general operation of that Act during its first year.

Generally speaking, on this side of the Atlantic, and especially in the U.S.A., information required by Governmental agencies is extensive. The Securities and Exchange Commission in the U.S.A. is particularly strict in its requirements of companies under its jurisdiction whenever new capital or any other additional finance is sought from the public. The caution reported to have been expressed by the financial editor of *The Times* (of London) concerning some of Sir Frederick's observations does not seem to be widely felt on this side of the world. Company reports which amplify financial and other data by use of pictorial and other means are common over here; and the investing public seems to like that means of illustration as to "where the dollar comes from, and where it goes." Annually, awards are made to companies which, in the opinion of judges, produce the "best reports"; and it is noteworthy that the last report of the Shawinigan Water and Power Company (one of our large utility companies), which has just received such an award, contained various interesting diagrams and graphs illustrating the operations and proposed developments of its business.

An American on Accounting in South Africa

The Journal of Accountancy for August, 1949, contains some interesting "Notes from Abroad" by Mr. J. S. Seidman, C.P.A., of the firm Seidman & Seidman (of New York). While in South Africa Mr. Seidman observed the agreeable fact that among three members of the Special Income Tax Court there, one is an accountant; and that although only lawyers may plead before the Supreme Court of South Africa, an accountant has the right in that country to appear either alone, or with an attorney, before the Income Tax Court. Another interesting fact reported by Mr. Seidman is that the extensions of audit practice as adopted in the U.S.A. to include physical observations of inventories, and independent verifications of accounts receivable, have not taken much hold in South Africa. An accountant from this side finds it hard to resist a suggestion that such extensions adopted in the U.S.A. have made for more efficient auditing and for better service to clients.

Nationalisation and the Profession

While in Great Britain, Mr. Seidman was deeply impressed by the effect of nationalisation of certain industries upon the auditing profession. He sees among those effects some dislodgment of auditing firms when, under nationalisation, one firm is selected to do work that previously required the services of several firms. He seemed moved to fear some eventual form of nationalisation of the accountancy profession. In that regard he mentioned as an example the socialisation of medicine.

One supposes that a centralisation of industries under centralised Government bodies inevitably lessens the need for some professional accountancy services; but it seems difficult to visualise how our profession of compiling and presenting financial *facts* could ever become nationalised in any regimented fashion other than by the arrival of State control in its most despotic form. The points raised by Mr. Seidman are, however, thought-provoking and they are particularly relevant to observations made in the following notes, derived from a reading of current accountancy literature.

Accounting Deficiencies of Small Businesses

For those practising accountants who find themselves affected adversely by nationalisation of industry, *The Journal of Accountancy* for November, 1949, contains a timely article by Mr. Myron E. Guill, C.P.A., of Pasadena, California. In his contribution, which is entitled "How the Public Accountant can Meet the Needs of Small Businesses for Management Counsel," Mr. Guill reports some surprising deficiencies in one of the largest United States cities, none other than Philadelphia. He reports that of a number of businesses surveyed by the United States Chamber of Commerce of that city, 28 per cent. had no business records at all; 49 per cent. maintained some form of single entry; 15 per cent. had some sort of records which seem to have been less than satisfactory, and only 8 per cent. were keeping double entry records.

Those who made the survey disclosing such astonishing conditions are reported by Mr. Guill as unanimous in declaring that the needs of small businesses were not being met. The weaknesses are stated to be principally in respect of: (1) unsound organisation structure; (2) lack of aggressive and alert leadership; (3) high operating costs; (4) poorly directed sales programmes; (5) inadequate accounting controls; (6) ineffective budgeting; (7) no scientific cost controls; (8) disproportionate selling expenses; (9) loose credit policies; (10) short-sighted procurement policies; (11) unwarranted inventory accumulations; and (12) inadequate financing.

In his valuable article, Mr. Guill proceeds to show what he calls "the obvious opportunity for the accountant," by a discussion of many of the weaknesses just listed. He suggests means by which accountants, with the aid of other experts wherever such aid is necessary, may provide valuable assistance to industry, and at the same time bring welcome business to themselves. Making all allowances for the fact that conditions in Great Britain may differ radically from those prevailing in the U.S.A., it does seem likely that among the twelve weaknesses reported by the Chamber of Commerce in Philadelphia, at least some may be troubling small businesses in Great Britain. None of us will imagine that the U.S.A. is relatively backward in regard to business organisation—and Philadelphia is really an important city. So it may be that study of the article to be found in pages 390 to 395 of the November issue of *The Journal of Accountancy* could produce some welcome business for practising accountants on your side, and valuable benefits to many owners of the small businesses who, one imagines, wish to do their utmost to operate in a productive and profitable manner. Incidentally, Mr. Guill regards as "small businesses" those that employ less than 100 persons.

The Dominion Association Annual Meeting

During the early days of last September, the stately Royal York Hotel in Toronto was the headquarters of the forty-seventh annual meeting of the Dominion Association of Chartered Accountants. The annual meeting has become an outstanding event for Chartered Accountants here: it fulfilled the highest expectations. Among the welcome guests was Mr. B. H. Binder, F.C.A., immediate past-President of the

Institute of Chartered Accountants in England and Wales, and long a prominent figure in South American and other financial circles. His presence, together with that of Mr. P. F. Brundage, C.P.A., President of the American Institute of Accountants, and Mr. Carman G. Blough, C.P.A., who is Research Director of that distinguished body, lent to the gathering an international flavour which is always most welcome.

British, Canadian and American Taxation Procedures

Taxation, it seems, resembles the poor, in that it is ever with us. This thought must have been in the minds of those gentlemen who constitute the Dominion Association's committee in charge of the annual meeting; for three papers that were read there dealt with income tax procedures. The papers were all excellent. Those readers who refer to *The Canadian Chartered Accountant* for October, 1949, will find two of them. One is Mr. Binder's valuable contribution entitled "Income Taxation in the United Kingdom"; the other is the illuminating paper by Mr. Charles Gavsie (Co-ordinator and Chairman of the Dominion Income Tax Division) entitled "Some Aspects of Taxation in Canada." An early issue of the same journal will contain Mr. Brundage's address upon the subject of Income Taxes in the U.S.A., and so complete the trilogy. Collectively, the addresses provided interesting comparisons of procedures followed in three of the most industrialised countries of the world.

The Season's Greetings from North America

These notes were being written as the festive season approached, though they will appear in ACCOUNTANCY on New Year's Day. At this time all professional accountants over here will join in expressing the hope that so far as conditions permit—and even further—you will all have an enjoyable and happy Christmas. With the same sincerity, all will wish you much greater prosperity and greater fullness of life than has been yours during the year now drawing to its close. May you all have a bright and prosperous New Year; and may the regrettable need for that now odious word "austerity" pass into obscurity before the year 1950 comes to its end!

TAXATION

Lump Sum Payments to Directors

The payment recently of large lump sums to the managing directors of two leading motor manufacturing companies, in consideration of their undertaking not to work for other companies in the industry, has raised again the issue when lump sum payments are and when they are not taxable. There have been a number of legal cases on the question whether particular payments made by employers to employees were of a capital or revenue nature and certain general principles may be deduced from decisions of the House of Lords.

By T. J. SOPHIAN

IN THE CASE *Hunter* v. *Dewhurst* (1932, 16 T.C. 605), the articles of association of a company provided that where a director died or resigned or ceased to hold office for a cause not reflecting upon his conduct or competence, the company should pay him "by way of compensation for the loss of his office" a sum equal to the total amount of his remuneration in the preceding five years. The respondent director subsequently agreed with the company, at a time when he was ceasing to be chairman but was remaining a director, that in lieu of his rights under the articles he should be paid £10,000, while his remuneration as director should be reduced to £250 per annum. The House of Lords held by a majority that the £10,000 was not a profit from his employment as director, nor was it salary, but was a sum paid down by the company to obtain a release from a contingent liability, as distinguished from remuneration under the contract of employment. If it had been held on the other hand that the lump sum payment was capitalised remuneration, then it seems that it would have been in the nature of income—irrespective of whether or not the payment was being made in respect of *past* services or of services *yet to be performed.*

Authority for this latter proposition is to be found in another decision of the House of Lords, *Cameron* v. *Prendergast* (1940, A.C. 549, 23 T.C. 122). In this case, the respondent, a director of a company, was desirous of resigning. His fellow directors urged him in the interests of the company not to do so, and as a result an agreement was arrived at between him and the company, under which his salary was reduced from £1,500 to £400, and he received a lump sum payment of £45,000. The House of Lords held that the £45,000 was a profit from the respondent's directorship and was therefore assessable under Schedule E. It was sought to distinguish Dewhurst's case, discussed above—from which, incidentally, Lord Wright stated (1940, 2 A.E.R. at p. 43) that it was difficult to elicit any principle—on the ground that the sum of £45,000 was paid to the appellant in his capacity as director, and to induce him to continue to act as director, and was not the compromise of a future and contingent liability to pay a lump sum on the cessation of his tenure of office.

Both the cases mentioned turned to some extent on the interpretation which the House of Lords placed on the particular contracts. But they appear, at any rate, to establish these principles: *firstly, that a payment made as a consideration of a release from a future and contingent liability would be of a capital nature; and secondly, that a payment made as an inducement to a director or other servant to continue his services to his employer would be in the nature of a revenue payment.*

But as Viscount Simon pointed out in *Tilley* v. *Wales* (1943, 3 A.C. 386; 1943, 1 A.E.R. at p. 283), one must not disregard the language itself of the Rule in Schedule E which provides that tax shall be charged on every person exercising an office or employment of profit "in respect of all salaries, fees, wages, perquisites, or profits whatsoever therefrom". The word "remuneration" is not used in the Rule and Viscount Simon stated that he was not himself prepared to go so far as to say, as Lord Goddard and Lord Greene said in *Tilley* v. *Wales*, that remuneration for services could never be capital in the sense which would put it outside income tax.

Tilley v. *Wales* was a case in which a single lump sum payment, payable in two instalments, was agreed to be made to a director in consideration partly of his releasing the company from the obligation to pay him a pension and partly of a reduction of his salary from £6,000 to £2,000 per annum. The House considered that the payment in so far as it was paid in respect of the reduction of salary was an income payment, while the remainder, which was paid in relation to the pension rights, was in effect for the release of the company from a contingent liability and was therefore capital.

In his judgment in that case (1943, 1 A.E.R. at p. 283) Viscount Simon said:

> The ordinary way of remunerating the holder or the person employed is to make payments periodically, but I cannot think that such payments can escape the quality of income which is necessary to attract income tax because an arrangement is made to reduce for the future annual payments while paying a lump sum down to represent the difference.

The further question raised in *Tilley* v. *Wales* was whether a lump sum payment which was partly of an income and partly of a capital nature was apportionable. The House held that it was apportionable and remitted the assessment to the Commissioners to determine a reasonable apportionment.

Tilley v. *Wales*, as already pointed out, was to the effect that a payment made in consideration of a reduction of salary was of an income nature, but it would seem that if the payment could be regarded as compensation paid to the employee for loss of his rights under his agreement with his employer the payment would be a capital payment. In such circumstances the payment would in effect be akin to one of compensation for loss of office. Such a payment has been held to be of a capital nature, for the reason that such a payment may be regarded either as being for loss of a capital asset (that is, of an office) which is merely a source of income, or as being consideration for the release of the company from a future liability to pay a salary to a director whose services they no longer desired and who therefore from the company's point of view had become a liability. But on the other hand, if in fact the lump sum payment is to be regarded as being remuneration payable presently for future services, then it would be of an income nature. (See Lawrence, J., in *Duff* v. *Barlow*, 23 T.C. 33.) Reference also may be made to *Wilson* v. *Daniels* (1943, 2 A.E.R. 732), where a payment of £75,000 made to a director in consideration of the cancellation of agreements appointing him as chairman, governor and managing director of the company, and by way of compensation for the loss of the offices, was nevertheless held to be of an income nature. This decision again turned largely on the effect of the agreements.

Where a payment is made in consideration of the payer entering into a restrictive covenant restraining him on the termination of his office from competing with his employer, the payment would be of a capital nature. In the case *Beak* v. *Robson* (25 T.C. 33), see also *Hose* v. *Warwick* (1946, 39 R. and I.T. 315), the lump sum payment was held to be partly in consideration of the employee abandoning to the company his personal connection, which in itself was a source of income and a capital asset, and partly in consideration of his entering into a restrictive covenant restraining him from competing with his employers upon the termination of his employment with them.

Payments made by way of damages for repudiation of service agreements constitute capital payments. But here again the dividing line is very fine. In *Du Cros* v. *Ryall* (19 T.C. 444), the company repudiated the service agreement of its employee. Under this agreement the employee was entitled to a salary and commission and remuneration of various kinds. The company repudiated the agreement on the grounds, *inter alia*, that the directors had no power to make it and that the agreement was bad. Actions were commenced against the company as a result, under which both liquidated sums in respect of commission, etc., as well as damages for repudiation of the agreement were claimed. The actions were settled on the terms that a sum of £57,250 was payable as agreed *damages*. It was held that this sum was a capital receipt.

It seems that this point of the payment being damages distinguished *Du Cros* v. *Ryall* from *Carter* v. *Wadman* (25 T.C. 473). There a sum of £2,000 was agreed to be paid "in settlement of all past, present and future claims" to the appellant, who was the resident manager engaged by the licensee of licensed premises, in consideration of the appellant agreeing to the assignment of the lease by the licensee and to the sale by her of the business. It was held that the payment was made in part for giving up a very valuable agreement and in part for giving up a claim to a share of the profits, to which the appellant would have been otherwise entitled, and that while the former was a capital receipt the latter was of a revenue nature.

It should be observed that a lump sum payment made voluntarily as a testimonial for past services has been held not to be a profit of an office and accordingly not taxable. Of this nature was the testimonial paid by the shareholders of a company to a liquidator in appreciation of his services (*Cowan* v. *Seymour*, 7 T.C. 392). Since the passing of the Finance Act of 1947, however, certain lump sum payments which formerly would not have been taxable will not now escape liability to tax. "Retirement or other benefits" are brought within the net by Sections 19-23 of the Act. For this purpose a "retirement or other benefit" will include "any pension annuity, lump sum gratuity or other like benefit to be given on retirement or in anticipation of retirement, or in connection with past service, after retirement, or to be given on or in anticipation of or in connection with any change in the nature of the service of the person in question."

It is by no means an easy question to determine how far the earlier decisions have been affected by the new provisions, and many of them would require separate and detailed examination. It would seem, however, that such cases as *Cowan* v. *Seymour* (the case of the testimonial), and *Tilley* v. *Wales* (the case of the commutation of pension rights) would be affected by the 1947 Act. But lump sum payments made by way of damages for repudiation of service agreements (*Du Cros* v. *Ryall*) or in consideration of the entering into restrictive covenants by the employer (*Beak* v. *Robson*) or by way of compensation for loss of office (*Dewhurst* v. *Hunter*) *so long as it was not a case merely of a change in the nature of the service*, would not be affected by the 1947 Act. In any event, the operation of the 1947 Act is limited, since exemption is conferred, *inter alia*, in certain circumstances, on schemes in operation before April 6, 1947, and schemes approved by the Commissioners under Section 21 of the Act.

The exempted cases may perhaps be thus classified.

1. Superannuation Schemes, made, pursuant to statutory enactments including Regulations, by Ministries or Government Departments. (Note the definition of "statutory superannuation scheme" in S. 23 (1) of the Act.)

2. Provident fund or staff assurance schemes so far as they relate to persons remunerated at a rate of £2,000 per annum or less, provided that the conditions referred to in paragraphs (*a*) and (*b*) of the definition of such a scheme in S. 23 (1) of the Act are present.

These conditions are that the sum paid under the scheme by the company does not exceed 10 per cent. per annum of the remuneration of the person to benefit under the scheme, and does not in any case exceed a rate of £100 per annum, and further, that no other scheme is subsisting in relation to the class of person to whom the scheme relates, subject to this qualification however, viz., that, if there is any other such scheme, the total payments made by the company under the schemes does not exceed £100 per annum or 10 per cent. per annum of the remuneration of the person in question, whichever is the less.

3. Schemes under which the benefits are secured by premiums payable by the company under life or endowment assurance or life annuity contracts.

For this purpose, however, the scheme must have been in operation before April 6, 1947, and must not be confined or substantially confined to directors and/or persons, other than directors, remunerated at more than £2,000 per annum.

4. Schemes under which the main benefit is by way of a pension or life annuity. Such a scheme, however, must have been in operation before April 6, 1944, or must be approved by the Commissioners under S. 21 of the 1947 Act.

Lastly, it should be noted that liability under S. 20 will not attach to payments received in connection with employments being exercised outside the United Kingdom in such circumstances as to exclude liability to an assessment under Schedule E.

Taxation of Trading Profits

We publish below the memorandum of representations submitted by the Society of Incorporated Accountants to the Committee, under the chairmanship of Mr. J. Millard Tucker, K.C., appointed by the Chancellor of the Exchequer to inquire into the method of computing net trading profits for the purposes of charging them to income tax and to profits tax and to consider the basis period for assessing income tax.

I. SUMS WHICH SHOULD NOT BE INCLUDED IN PROFITS

To what extent sums now included in computing profits should not be so included

IT IS NOT DESIRED TO MAKE SPECIFIC REPRESENTATIONS ON THIS subject. Consideration has been given to *income earned abroad which cannot be remitted* to this country: it is believed, however, that it is desirable to continue the present practice of raising assessments on the understanding that collection of tax will be deferred until the income is remitted or made available. Consideration has also been given to *fortuitous profits due to inflation.* While there is no doubt that the incidence of taxation has been seriously affected by this factor, it would be difficult and inequitable to separate such fortuitous profits from normal trading profits. It is, therefore, considered that the problem of inflation should be dealt with by certain specific measures which will be mentioned later, in preference to an attempt to relieve such fortuitous profits from taxation.

II. EXPENSES DISALLOWED WHICH SHOULD BE ALLOWED

To what extent sums now disallowed as deductions in computing profits should be allowed

Income tax is a tax on income: the income to be taxed should be the real and actual income, and not a notional or artificial figure. It is therefore submitted that "taxable profits" should be closely identified with profits as ascertained on accepted accounting principles, and that adjustments of an artificial or technical nature should be reduced to the utmost possible extent.

The accounting principle which forms the basis of the computation of profits is that expenditure should be written off over the period in which it is estimated that benefit will be derived from the expenditure. From this principle, it follows that expenditure which does not create an asset or an enduring benefit should be regarded as a current expense of the business. It follows also that expenditure on the creation of an asset should be written off over the estimated life of that asset; that an asset which is used up in the production or marketing of goods or services should be charged against the sale proceeds of those goods and services.

It is submitted that these principles should be adopted for tax purposes.

The present practice in computing "taxable profits" is based mainly on the disallowance of (*a*) disbursements not being money wholly and exclusively laid out or expended for the purposes of the trade and (*b*) any capital withdrawn from or any sums employed or intended to be employed as capital in such trade. From these two prohibitions, a narrow definition of allowable expenses has emerged. Disbursements which are directly related to the carrying on of a trade are disallowed, on the ground that they are not made for the purpose of earning profits (*Strong & Co.* v. *Woodifield*, 5 T.C. 215). A distinction has been drawn between expenses incurred *qua* owner and expenses *qua* trader (*C.I.R.* v. *Scottish Central Power Co., Ltd.*, 15 T.C. 761)—a distinction which appears to be unjustifiable where the premises are owned and used solely for trading purposes. The proper amortisation of capital expenditure is frequently disallowed.

It is submitted that Rule 3, Cases I and II of Schedule D should be amended in accordance with the accounting principles mentioned above, so as to provide that, in computing profits for tax purposes, deductions should be made in respect of:

(*a*) Disbursements or expenses made or incurred in the course of, or arising out of or in connection with, the trade, not being disbursements or expenses of a capital nature.

(*b*) Disbursements or expenses of a capital nature, to the extent to which the asset or enduring benefit created by such capital expenditure is used up or exhausted in the accounting period.

The following are examples of expenditure which is at present disallowed but which would be allowable if these general principles were adopted.

A. Expenses relating to Business Premises and Plant.

To be written off when incurred	*To be written off over life of asset*
Costs of disposing of leases and other expenses arising on termination of leases.	Alterations or improvements to property or equipment.
Decoration and repairs, at commencement of tenancy.	Law and other costs relating to acquisition or alteration of property or equipment or on leases and tenancy agreements.
Abortive capital expenditure, when no usable asset or enduring benefit is created, e.g., professional fees for investigation of properties which are eventually not acquired.	Premiums on leases.
	Development charges under Town and Country Planning Act.
Costs of cancelling contracts for acquisition of capital assets.	Advertising expenditure on permanent hoardings.

The following special cases are also submitted:

Replacement of Complete Buildings

It is submitted that an allowance should be given for the cost of replacement of complete buildings if the buildings have not been the subject of an industrial buildings allowance. In such a case, and provided the concern is merely maintaining its assets, the distinction at present drawn between complete replacement and partial replacement should be abandoned.

Renewals of Plant and Machinery

It is at present claimed by the Inland Revenue authorities that there is no statutory right to the adoption of the renewals basis as an alternative to wear and tear allowances in regard to plant and machinery. There are certain cases in which the adoption of wear and tear allowances involves substantial practical difficulties, and where the renewals basis is the only feasible basis. It is considered that any doubts as to a taxpayer's right to adopt the renewals basis, where desired, should be removed.

The state of the law, as illustrated in *Margrett* v. *Lowestoft Gas and Water Co.* (19 T.C. 481), has discouraged expenditure on replacement as distinct from repair. No deduction is allowable for repairs which could have been, but in fact have not been, executed if it is decided to replace the asset as a whole. Any change in this practice would involve considerable difficulties

of application, but it is suggested that the committee might consider whether it would be practicable to remove such a deterrent to the modernisation of equipment. A possible method might be to allow as a deduction in the year of replacement an amount technically certified as being necessary to restore the asset to normal working condition, and to make a corresponding deduction from the cost of the new asset for the purposes of capital allowances.

It is also submitted that, where the renewals basis is adopted, losses on sales should be allowable deductions when there is no replacement.

Deductions of Schedule A. N.A.V. in computing Profits

All owner-occupied property used for business purposes is at present assessed under Schedule A and the annual value is then deducted from the profits assessable under Case I and Case II of Schedule D. It is suggested that where a property is entirely used for business purposes and it is in the ownership of the person carrying on the trade, the Schedule A assessment might be discharged and no deduction allowed under Schedule D for the net annual value. Any receipts from sub-letting should be brought into credit.

Initial Repairs on newly acquired assets

The principle arising in the case of *Law Shipping Co., Ltd.* v. *Commissioners of Inland Revenue* (12 T.C. 621) appears to have been stretched far beyond its reasonable interpretation, and it seems desirable for this principle to be reviewed. If the relative repairs are carried out by the vendor there is at present normally no bar to their allowance, and this position should apply whether the repairs are carried out by the vendor or purchaser.

B. Removal Expenses

It is submitted that removal expenses should be allowed, when incurred, irrespective of whether the removal is voluntary or compulsory. Similarly, the cost of altering the position of plant and fixtures should be admitted.

C. Financial Expenditure

The following should be allowed :

Preliminary expenses (possibly over ten years).

Costs of increasing capital.

Costs of raising loans, debentures, mortgages and bank overdrafts.

Costs of varying rights of members.

D. Payments in respect of Employees

It is recommended that expenditure should be allowed in respect of removal expenses of new employees. Where houses are provided for employees, it is suggested that the cost of such houses should qualify for the allowances under Income Tax Act, 1945, for industrial buildings.

E. Contributions and Subscriptions

It is suggested that charitable donations should be allowed, if they are paid out for the furtherance of trade.

F. Law Costs

The cost of conducting appeals on matters affecting liability to taxation should be allowed as a deduction from profits. There have been a number of legal decisions on this question from time to time, the most recent being *Rushden Heel Co., Ltd.* v. *Commissioners of Inland Revenue* (30 T.C. 298) and *Smith's Potato Estates, Ltd.* v. *Bolland* ; *Smith's Potato Crisps, Ltd.* v. *Commissioners of Inland Revenue* (30 T.C. 267).

Mr. Justice Atkinson decided these cases in the King's Bench Division in favour of the taxpayer but his decisions were reversed by the Court of Appeal and finally in the House of Lords by a majority of three to two. Important points of principle arising out of the construction of Income Tax Acts often fall to be determined by the General or Special Commissioners and subsequently by the Courts, often at the expense of the taxpayer. It would seem that as a strict matter of law the costs incurred by the taxpayer in connection with these appeals cannot be said to be wholly and exclusively incurred for the purposes of the trade within Rule 3 of the Rules of Cases I and II of Schedule D ; it is submitted that the law should be amended in order to allow these costs to be deducted in computing trading profits for tax purposes.

Other types of costs which should be allowed include :

Law costs on partnership agreements.

Law costs on defending prosecutions for technical offences or cases relating to the carrying on of the trade. On the same basis, court fines should be allowed.

G. Specific Provisions

Where a specific provision for a contracted trading liability is properly made on accepted principles of commercial accounting, that provision should be an allowable deduction for taxation purposes, and the effect of the decision in *Peter Merchant* v. *Stedeford* (Court of Appeal, November 26, 1948) should be nullified.

H. Exhaustion of Natural Resources

There is a strong case for an allowance in cases where land or other natural resources are being used up in the carrying on of a trade—for example, quarries, brickworks, mines, oil wells, gravel pits and cemeteries.

It is submitted that the allowance in respect of mineral rights in the United Kingdom should be on the same basis as allowances in respect of mineral rights overseas. It does not appear that the title of the taxpayer to have his taxable profits arrived at on a correct and fair basis should be affected by the question of whether or not the vendor of mineral rights should be assessed to tax in respect thereof.

Part III of the Income Tax Act, 1945, and Section 22 of the Finance Act, 1949, should be extended so as to apply to costs of acquisition of mineral deposits and rights therein, not only in relation to sources overseas but to sources in the United Kingdom. The limitation in Section 22 of the Finance Act, 1949, to the former is one of expediency only.

I. Raw Materials bought with Land

The cost of raw materials or saleable assets should be allowed even where the stocks in question are bought together with the land, and the present principle of treating the cost of growing apples, for example, as capital expenditure on the grounds that they are part of the land, should be abandoned as artificial and unreal (*C.I.R.* v. *Pilcher*, January 18, 1949).

J. Expenditure of a Revenue nature incurred prior to the commencement of business

It is suggested that this expenditure should be allowed if falling within the definition (*a*) on page 23, even if incurred before the commencement of the business.

PROFITS TAX COMPUTATIONS

A. *Inclusion of Non-trading Income*

Section 32 of the Finance Act, 1947, amended the law concerning the inclusion in profits as computed for profits tax purposes of income from investments. As from January 1, 1947, all investment income must be included in the charge to profits tax, except income received directly or indirectly by way of dividend or distribution of profits from a company which is itself within the scope of the charge to profits tax. The effect of this amendment was to bring into charge to profits tax certain non-trading income, such as war loan interest, rents received from let premises and, indeed, all investment income not received from other trading companies.

Under Section 19 of the Finance Act, 1937, profits tax is to be

charged on the profits of trades and businesses. It is submitted that it is an unreasonable departure from the basic principle of charging trading profits with profits tax if non-trading income is included in computing the profits that are to be charged with profits tax.

B. *Royalties*

Royalties paid to an overseas parent company, if exempt from income tax under a double taxation convention, should be allowed.

C. *Directors' Remuneration, etc.*

In the case of a director-controlled company where there is more than one director (Fourth Schedule, Finance Act, 1937) it is submitted that the maximum deduction for directors' remuneration should be increased from £2,500 in aggregate to £2,000 per director.

The position of annual payments to a director of a director-controlled company is anomalous. If these are within Rules 19 or 21 of the General Rules no deduction may be allowed for profits tax, but there is nothing to prevent the deduction of a payment which is outside those rules, e.g., rent under a short lease. It is suggested that all annual payments should be allowed to the extent that they would be allowed for income tax apart from the express prohibition contained in Rule 3 (1) of Cases I and II provided that they are at a reasonable commercial rate. The existing power of dealing with artificial transactions should be sufficient to deal with any attempted abuse.

D. *Loans to Members*

The treatment of repayment of loans to members in relation to non-distribution relief and distribution charges is unsatisfactory. The intention is to restore the *status quo* to the extent that advances have previously been made, but the intervention of chargeable periods in which there is no profits tax liability means that this need not be achieved in practice. A separate record of advances and repayments which have been taken into account for profits tax must be maintained, and this loses coincidence with the course of the actual account in such circumstances. It is suggested that repayments be dealt with by reopening the computation for the chargeable period in which advances have been taken into account as gross relevant distributions.

E. *Profits arising*

The law should be clarified so as to remove the double significance of the phrase " profits arising," which is used in the sense of the final figure on which tax is charged, and also in the sense of " adjusted profits " as shown by the computation, before questions of abatement and relief for past losses arise. This would clarify the position of such losses.

III. DEPRECIATION ALLOWANCES

To what extent the present basis of depreciation allowances should be altered

It is submitted that :

A. Wear and tear, initial and other annual capital allowances should be a deduction in computing profits and not an allowance in the assessment, and it should be an allowance for the accounting period. Depreciation or wear and tear is a factor properly to be taken into account before profits are ascertained, and this fact should be recognised by the taxation law. The point is of even more importance for profits tax, where the time lag between the acquisition or disposal of plant and the reflection of the transaction in the tax assessment is frequently considerable.

Similarly, additional allowances for overtime working should have reference to the facts existing in the period of the accounts, and not in the year of assessment.

B. An allowance should be given for all physical assets employed in the business, irrespective of whether they fall within the strict definition of the term " plant and machinery." Instances of assets on which an allowance ought to be given, but is not given at present, are such items as shop fronts and carpets.

C. The present industrial buildings allowance should be extended to cover all buildings used for the purpose of a trade or business. It would appear that depreciation of buildings is as much a factor to be taken into account in computing profits as depreciation of plant and machinery. Furthermore, the existing basis gives rise to unreasonable results, e.g., where offices form part (not exceeding one-tenth) of a factory building an allowance is given, but if the offices, however small comparatively, happen to be housed in a separate building, the allowance is withheld. Similarly, a building of a precisely similar kind, say, a garage, qualifies for the allowance if it is used by a taxpayer carrying on one kind of trade, but not if it is used by a taxpayer carrying on a different kind of trade.

D. The withdrawal of the war-time concession which allowed an extra third on wear and tear rates for two-shift working and two-thirds for three-shift working is a move which is certainly not designed to encourage maximum plant utilisation with its beneficial effect on costs, including export costs. It is now possible to obtain an increase of 50 per cent. for three-shift working only, no increase being granted for two-shift working. The two-shift working should rank for an increased wear and tear allowance and we suggest that the war-time rates should be restored. This would take the form of a general application under para. 6, Part I of Sixth Schedule of the Finance Act, 1949.

E. It is already clear that many companies are not making adequate provisions for re-equipment because the profit remaining after taxation is insufficient to enable them to do so. This difficulty is likely to increase as the consequences of the devaluation of the pound develop.

F. Deduction should be allowed from profits for purposes of taxation of provisions made for replacements which are considered to be necessary in the light of the facts relating to the circumstances provided (*a*) that they shall be brought into charge if in fact they are not used for the anticipated purpose within a reasonable period and (*b*) that if they are so used they shall be deducted from the cost of the new asset for purposes of wear and tear.

IV. EXPENSES OF A SPECIAL NATURE

These have been mentioned above under Section II.

V. TRADING STOCKS

It is submitted that no special rules should be introduced in regard to the valuation of trading stocks for taxation purposes. The valuation of stock is primarily a commercial matter, and if the basis of valuation is one which is acceptable on commercial principles, it should be equally applicable for taxation purposes. There are no grounds for adopting a separate set of stock valuation rules purely for the purpose of ascertaining taxable profits.

It should, therefore, be made clear that the taxpayer is entitled to adopt any basis which is acceptable in general commercial usage. It may be desirable to require him to state the basis, and to give the Revenue any necessary safeguard against loss arising from a change in basis.

In some instances, the Revenue have endeavoured to impose a rule that stock should be valued in total at either cost, or market value, and that individual items may not be revalued. Although the global basis received statutory support for the purpose of arriving at the amount of stock loss claims for excess profits tax purposes, this statutory authority applies solely to that particular matter and does not affect the wider question of valuing stocks each year for the purposes of commercial accounts. Any attempt to impose a rigid basis of stock valuation should be abandoned.

VI. BASIS OF ASSESSMENT

As regards income tax, whether the tax payable should be assessed as at present on the preceding year's profits, or on an average of a number of preceding year's profits, or on the actual year's profits.

A. The majority of the opinions of the members of the Society which have been expressed favour the assessment of income tax on the basis of the actual profits of each accounting period.

The present preceding year basis necessarily involves that certain profits do not come into assessment at all, while the profits of other periods come into assessment more than once. The result may be unfair to either the taxpayer or the Revenue and it is not desirable that such a condition should persist.

At present the best practice in company accountancy requires that a reserve shall be made for the future liability to income tax on the profits arising the change in basis would free these reserves and provide a valuable stimulus to industry without any cost to the Revenue.

It is suggested that, as from April 6 in the year in which the change is made, all profits arising in that part of any accounting period which falls after that date should be assessed under rules similar to those adopted in regard to profits tax. Where it is necessary for certain purposes to arrive at the profits of a fiscal year, this result should be achieved by the apportionment of actual profits on a time basis.

It is understood that Sweden made a similar change without difficulty but experience in that country reveals the dangers of leaving the profits of the transitional year not subject to assessment. This point could be met by basing the assessment for the transitional year on an average such as that employed when there is a change of accounting date.

B. It is also suggested that there should be no time limit on the carrying forward of losses and that losses should be carried back for one year. There appears to be no justification for the present provision whereby the carry forward of losses is restricted to six years, while wear and tear allowances may be carried forward indefinitely.

VII. HOLDING COMPANIES

Whether the profits of wholly owned, or substantially wholly owned, subsidiary companies should be grouped with the profits of the parent company and treated as one for the purposes of income tax, and if so, what consequential adjustments would be necessary.

It is suggested that an option should be given to groups of companies similar to that already in existence in regard to profits tax, so that the profits can be assessed to income tax on a group basis.

The reasons which made it desirable to introduce the grouping principle for purposes of both excess profits tax and profits tax are equally applicable for the purposes of income tax, and although means whereby profits or losses can be transferred from one company to another within a group can at present sometimes be devised, these means are of a somewhat artificial nature. It would appear desirable that there should be a clear right to group assessment in all appropriate cases.

It is appreciated that in the event of group assessment being adopted responsibility under Rules 19, 20 and 21 of the General Rules, Income Tax Act, 1918, would need to be transferred to the parent company.

If the basis of assessment to income tax can be amended to the profits of the accounting period, then it would be reasonable to introduce legislation similar to that contained in Section 22, Finance Act, 1937, which applies to profits tax. Such legislation, it is suggested, would give a principal company the right to elect to have the profits of substantially owned subsidiary companies amalgamated with its own for the purposes of computing the income tax liability of such companies. It is suggested that for this purpose a subsidiary company be defined in accordance with the provisions of Section 42 (1), Finance Act, 1938, the basis of which is direct or indirect holding by the principal company of 75 per cent. of the ordinary share capital of the subsidiary. Where the principal company exercises its option, then this should be applicable to all subsequent years of assessment so long as the relationship of principal and subsidiary companies subsists between them.

VIII. GENERAL MATTERS

A. *Property-owning undertaking*

Property-owning undertakings should be assessed to income tax on their actual profits, all income being assessed under Case I. The present basis, which frequently involves the raising of assessments or the submission of claims under six or more headings, and in a number of different tax districts, not only involves a great deal of additional work both to the taxpayer and to the Revenue but also arrives at a figure which is not necessarily fair to either side. No difficulty has arisen in regard to profits tax in ascertaining the actual profits of a property-owning company, and it is considered that there should be no difficulty in achieving the same result for the purposes of income tax.

Assessment of Income Tax on Property-owning and Investment Companies

Tax is assessed on property-owning companies as follows:

(i) Dividends and interest received are taxed by deduction in the normal way.
(ii) Rents received are taxed:
  (*a*) Under Schedule A.
  (*b*) Under Case VI—Schedule D—on excess rents.
  (*c*) By deduction, in the case of long leases.
(iii) Case I, Schedule D—in respect of any profits on supplying services.

The company then has to make the following repayment claims:

(i) Management expenses claim—on the management expenses of the company.
(ii) Maintenance claim, in respect of repairs, management expenses, letting expenses and rent collection (possibly to several different districts).
(iii) Bank interest claim.
(iv) Claims under Section 21, Finance Act, 1930.
(v) Section 34 claims for losses on services.
(vi) Voids.
(vii) Lost rents.
(viii) Building society interest.

In addition there is a profits tax computation to be prepared.

There are no provisions for making maintenance claims in respect of properties let on full repairing leases. If all the properties of a company are let on full repairing leases, no maintenance claim can be made, and so the company loses tax on such of its expenses as are applicable to the management of the property, that is, rent collection, letting fees, costs of drawing up leases, etc.

The agreement of assessments and the collection of tax thereon would be simplified and expedited if such a company were assessed under Schedule D, Case I, in the normal way.

It will be appreciated that in practice part of the properties may be let on full repairing leases whilst others may be let on internal repairing leases, so that the preparation of a maintenance claim involves a considerable amount of analysing and estimating. Further, in such a case the excess rents computation has to be prepared by reference to the rents and the net annual value of each individual property and cannot be prepared in total.

Maintenance claims and excess rents assessments in such cases involve such a large amount of estimating and approximating

that they have become divorced completely from reality. The management expenses claims are based largely on arbitrary percentages agreed with the Inspector of Taxes.

Further, such companies suffer the tax due during their financial year, but have to wait for several months after the accounts are prepared to receive the repayment, necessitating keeping idle large sums of working capital.

Maintenance Expenses of Properties let on Full Repairing Leases

It is an injustice that owners of property let on a full repairing lease should receive no allowance for expenses of managing the property, such as rent collecting commission, letting fees, cost of leases, etc.

B. Time Limits

Many of the time limits at present in force regarding the exercising of options, or the submission of claims, serve no useful purpose and should be abolished. Subject to the retention of the six year time limit in all cases, it is submitted that otherwise the Revenue would suffer no loss if options had to be exercised or claims submitted at any time before the relative assessment becomes final and binding.

C. Royalties paid to Persons Abroad

In a case where royalties are paid in full to persons abroad under the authority of a double taxation convention, and where the taxpayer incurs a loss, the present anomaly, whereby the amount of losses to be carried forward is reduced by the amount of the royalties paid in full, should be removed.

D. Investment Companies

In the case of investment companies, it is suggested that in so far as tax relief is not obtained on management expenses in any year because of an insufficiency of taxed income for that year, the unrelieved amount should be carried forward in the same way as a trading loss. So far as possible, it would appear desirable for the taxation of an investment company to be on the same lines as the taxation of a trading company.

E. Partnership Changes

In the case of a change in the constitution of a partnership, losses applicable to a continuing partner should be available to be carried forward whether or not the change is regarded as a cessation of the business. The terms should be similar to those applicable to the existing right to carry forward losses where a business is converted into a company, there being no grounds for worse treatment in the one case than in the other.

F. Publications of Inland Revenue Concessions and Practice Notes: Explanatory Notes on Finance Bills and Acts, etc.

The Explanatory Notes issued from time to time by the Board of Inland Revenue have been most useful and it is hoped that this procedure will be extended. It is further recommended that any new legislation should be accompanied by an Explanatory Memorandum indicating the official view of its meaning

Taxation Notes

Land Tax

THE FOLLOWING ARE THE SALIENT POINTS OF the legislation in the Finance Act, 1949, and the Land Tax (Assessment) Regulations, 1949:

(1) All land tax charges in future are to be fixed at the amount charged for 1948-49 (subject to adjustment in certain cases).

(2) If the land tax charge on a property for 1949-50 (before taking account of the exemption or abatement allowed to owners whose income does not exceed £160 or £400) would be less than ten shillings, land tax will no longer be payable on that property.

(3) Land tax on other properties is to be compulsorily redeemed in certain events.

The following is a summary of the Explanatory Notes recently issued by the Inland Revenue:

(1) *Annual charge:* There will be no future variations in the amount annually charged. (It should be noted that in arriving at the annual charge no account is taken of exemption or abatement owing to income not exceeding £160 or £400.) For 1949-50 onwards, till the tax is redeemed, the charge is fixed by that charged on the same property for 1948-49, subject to adjustments in these cases:

(*a*) Where the parish had a surplus in 1948-49, the future annual charges are to be reduced so that the total amount raised is equal to the quota for 1948-49 less the tax redeemed by the surplus.

(*b*) If the property formerly charged as a single property is divided so that parts were in the hands of separate owners or occupiers at March 25, 1949, or the beginning of any subsequent year, the annual charge may be apportioned, and the apportioned amount of each part will be its future annual charge.

(*c*) If any mine, quarry or right to tolls was assessed to land tax as a separate property for 1948-49, and the rateable value is less in 1949-50 or any subsequent year than it was in 1948-49, the annual charge may be correspondingly reduced for the year in question.

(2) Notice of appeal is normally to be given within one year after the end of the year of assessment (March 24), but in ordinary cases there will be no assessments after 1949-50 and therefore no appeal against the annual charge after March 24, 1951. Applications for apportionment for divided properties or reduction *re* mines, etc., as mentioned above, may be made within one year after the end of the year of assessment. The time limit for an appeal against an assessment for the purpose of apportioning or reducing an annual charge, or against the refusal of an Inspector of Taxes to make such an assessment, is 21 days. Appeals are to be made to the Inspector; if agreement is not reached with him, the case may be taken to the Land Tax Commissioners.

(3) For the purpose of the 10s. limit, a reduction in the case of a mine, etc., is to be ignored.

If a property charged for 1949-50 as a single property was actually divided in the hands of separate owners or occupiers on March 25, 1949, and the annual charge on some part(s) would be under 10s. if the charge were apportioned, application for apportionment may be made at any time, but exoneration will only take effect from the beginning of the land tax year in which the application is made. (Such a claim for 1949-50 must therefore be made by March 24, 1950.)

(4) Compulsory redemption applies when the property first changes hands (for example, on sale or death or on the grant of a lease for 21 years or more) on or after April 1, 1950; the cost is 25 times the annual charge.

If the cause is death, and the property forms part of an estate amounting to less than £2,000, the redemption payment will be remitted.

Where the property belongs to a corporate or unincorporated body or to trustees for charitable or public purposes, any tax not already redeemed by January 1, 1954, will be compulsorily redeemable on that date.

(5) Voluntary redemption can take place at any time. Until March 31, 1950, the cost will be 25 times the tax assessed for 1939-40; thereafter 25 times the annual charge.

Farm Assessments

It seems that we cannot get away from farmers these days; new problems keep cropping up.

The latest one brought to our notice is the position where a farmer changes farms. At first sight, since the farm changes hands, it would seem that the "new and discontinued business" rules (Rule 11) ought to apply. But is that so?

The Revenue appear to take the view that if a farmer gives up one farm and moves to another (whether larger or smaller) there is no cessation; the preceding year's basis of assessment continues. Market gardens and nurseries, however, are

regarded as separate trades from general farming.

This is presumably the official interpretation of Section 10, Finance Act, 1941, sub-Sections (3) and (4), which read :

> (3) All the farming carried on by any particular person . . . shall be treated as one trade. . . .
>
> (4) The question whether or not a trade has been discontinued or a new trade set up or commenced shall not, in the case of farming, be affected by the fact that, for particular years of assessment, the person . . . carrying on the farming is not or was not chargeable under Schedule D in respect thereof . . . and the period of computation for any year of assessment may . . . be a period falling wholly or partly within a year or years of assessment for which the person . . . carrying on the farming was not chargeable under that Schedule.

Sub-Section (4) is of interest only as showing that a change from Schedule B to Schedule D does not operate to bring Rule 11, Cases I and II of Schedule D, into play.

Section 10 (3) merely says that all the farming carried on by a person is to be treated as one trade ; how does this differ from a shopkeeper with several shops ?

We have searched for other provisions on the point, but without success. Our conclusion is that a farmer is no different from any other trader ; it is a question of fact whether a trade has been discontinued and a new one started.

If that view is right, the mere change from one farm to another is like a change from one shop to another, and if the stock is transferred, the trade continues. Where, however, there is an outright sale of everything on the farm, then it seems that Rule 11 must apply ; there is a succession to the trade, whether or not the farmer takes a new farm.

Readers' views and experiences would be welcomed.

Basis Periods

(i) Under Section 57 of the Income Tax Act, 1945, where there is an interval between the end of the basis period for one year of assessment and the basis period for the next year of assessment, then, unless the second-mentioned year of assessment is the year of the permanent discontinuance of the trade, the interval shall be deemed to be part of the second basis period. The following is an interesting example, where a business was transferred to a company on July 1, 1949 :

Year of Assessment	Original Basis Periods (Preceding year basis)	Amended Basis Periods (Cessation)	Gaps filled
1947-48	1/7/45–30/6/46	1/7/45–30/6/46	1/7/45–30/6/46
1948-49	1/7/46–30/6/47	6/4/48–5/4/49	1/7/46–5/4/49
1949-50	1/7/47–30/6/48	6/4/49–30/6/49	6/4/49–30/6/49
1950-51	1/7/48–30/6/49		

(ii) Had the penultimate year's assessment not been increased to actual, then the assessment for 1948-49 would have remained on the original basis period (1/7/46–30/6/47) so that the gap would have been from 1/7/47 to 5/4/49, and that period would have gone into 1948/49, its basis period totalling 1/7/47–5/4/49.

As the business is assessed as if it were permanently discontinued (by virtue of Rule 11), Section 57 (2) (*c*) applies (S. 68 (4)).

Balancing Charges

The chairman of a shipping company recently commented on the effect of balancing charges in terms of income tax. The company had recently lost a vessel built in 1927, and the recovery of the insurance monies resulted in a balancing charge of £206,000, which, assessed at the standard rate of 9s., attracted some £92,000 in tax. The balancing charge was equal to the whole of the allowances previously given.

The total relief for wear and tear during the ship's life had been £69,000, owing to varying rates of tax.

If the ship were not replaced, the company was therefore "down" by £23,000 in terms of tax. If the ship were replaced, it would cost some £650,000 more than the net capital left after the loss of the original ship. The balancing charge could be deducted from the cost of the new ship, of course, so spreading the charge over the future.

While admitting the hardship, we fail to see how relief can be afforded in circumstances such as these without giving rise to anomalies. So long as assessments continue to be made on present bases, results such as that mentioned are inevitable, and may work either way.

The aim of capital allowances is to deduct over the lifetime of an asset its net cost. If all the facts could be known in advance, this could be done evenly over the period. In fact, of course, it must work out that there is a balancing allowance or a balancing charge, made at the rate applicable when the life ends—and this can give more or less relief than an even allowance would have done, according to how tax rates have fluctuated.

Particularly is this the case where surtax also comes into the picture.

It might appear attractive to provide that a balancing charge or allowance could be spread back into the years in which allowances would have been given if spread evenly. As balancing charges are likely to be much rarer than balancing allowances, however, it is doubtful if the taxpayer would gain on balance. "Hard cases make bad law," is an old legal saying !

The chairman of the shipping company also said that the new ship would be written off in twelve years, after which the whole net earnings would be subject to taxation, making it impossible to maintain the capital intact at the end of the ship's life. This really confuses two problems : replacing capital outlay and providing for additional capital outlay owing to increasing prices and depreciation of money. The Acts only go so far in the replacing of the original outlay free of tax, not beyond.

The Inspectorate

The cases mentioned in the preceding note, coming at a time when publicity has been given to the training of recruits to the Inspectorate of Taxes, raise the whole question whether the Department is sufficiently in touch with the world outside. Their duties bring Inspectors into personal contact from time to time with taxpayers and their advisers, but the bulk of their work is still done by correspondence. They are trained by their predecessors, and this can hardly fail to produce a somewhat one-sided view of the picture at times.

The old adage about not seeing the wood for the trees is in consequence sometimes appropriate. How much time of both Inspectors and accountants is spent in ensuring (or trying to ensure) that a few guineas in subscriptions do not slip through ? Yet questions that are really important are overlooked.

We cannot help thinking that the training of Inspectors ought to include some talks from experienced accountants, who could not only discuss the commercial viewpoint, but acquaint budding Inspectors with some of the difficulties with which the accountant is confronted.

Deeds of Covenant

It is no doubt true that some deeds of covenant have been entered into light-heartedly with the aim of reducing surtax liability (and on occasion enabling repayment claims to be made on behalf of the donee). In such cases, it is doubtful if the terms of the covenant have always been kept. It is not to be wondered at, therefore, that inquiries are being made about the dates of the actual payments, the net amounts paid, method of payment (for example, cheque, banker's order, etc.), what evidence can be produced, and whether any part of the payments was refunded to or applied for the benefit of the settlor. These are undoubtedly valid enquiries, which should be welcome.

Although, if no payment has been made in the year of assessment, there can be no assessment to sur-tax on the covenantee, nor any repayment of income tax to him, the debt remains, and, when actually paid, must be related back to the year when due, provided the covenantor had sufficient income to pay it, that is, it comes under General Rule 19 and not General Rule 21. It is thought that, likewise, there can be no deduction for sur-tax purposes in the covenantor's computation until payment, but again, if Rule 19 applies, the payment should then relate back.

But it is better to avoid such questions by carrying out the covenant in its precise terms.

Stock Valuation

From time to time in these columns we have protested against the attempt of the Revenue to foist on to business the "global" method of stock valuation, despite commercial usage. It was therefore refreshing to read in *The Times* on November 4, 1949, the report of *C.I.R.* v. *Cock, Russell & Co.* (K.B.D., November 3, 1949) where it was decided that, it being a question of fact, the General Commissioners had not applied a wrong principle in holding that the method of valuation adopted by the company was in accordance with the practice of the trade and that they were justified in valuing each item of stock at the lower of cost or market value.

It is particularly striking that the Crown consented to judgment in the case of a finance company that had valued its investments in the same way (*Worthington* v. *Oceana Development Co.* (K.B.D., November 3, 1949)). Many such companies have used the global method, but it is evident that the principles involved are the same.

P.A.Y.E. and Directors' Fluctuating Remuneration

We have received the following somewhat flippant note from a reader who desired to remain anonymous; readers with experience of P.A.Y.E. will recognise the theme and sympathise with the views expressed:

The P.A.Y.E. position of directors who have remuneration after April 5, relating to a period before that date, is becoming chaotic, and unless some different system is evolved, things are going to get more unpleasant on all sides as time goes on.

The tax authorities, certainly, do not seem to be worried about the position, and I have even been told that everything is going smoothly! I wish I could say that about my own cases! The difficulty arises mainly on accounting periods to March 31—of which there are a preponderant number—because earlier periods frequently allow time for the payment of the fees or commission dependent on the profit, prior to sending in the P.11s at, say, the end of April.

I consider that cases falling in the above category should be dealt with separately, and could easily be arranged if the Revenue co-operated. I am quite aware of the existing provisions regarding the insertion of the remuneration on the current year's card, but this still has the objection of an assessment notice being received each year showing hundreds of pounds underpaid, when in fact there is frequently a repayment due. Another difficulty is when an amount is credited to a loan account and the director (conveniently or otherwise) forgets to put the amount on the card and pay the tax.

Eliminating various reforms, including a demand note each year, which I hardly think the Revenue would favour, I suggest the following:

1. A separate schedule of these type of cases listed in each District, preferably looked after by one clerk. This should not be difficult or laborious, as there cannot be such a great number in each District.

2. A special set of instructions to go out to each named director coming under this category, with supplementary P.35 and P.11s and to be continued each year.

3. It would probably be best, in the first instance, for the tax authorities to get each case up to date by sending a supplementary P.35 and P.11 with an underpaid assessment notice when they know, by correspondence or otherwise, that the remuneration in question is not being put on the current year's card.

I am well aware that these steps will not solve all difficulties, because, for instance, a deliberately neglectful director will get in a shocking mess anyway. But we haven't got any of those amongst our clients! Or have we?

Mills and Factories Allowance

The Income Tax Act, 1945, came into force on April 6, 1946, except in respect of industrial buildings which were the subject of a mills and factories allowance for 1945-46. In those excepted cases the appointed day became April 6, 1951.

It was provided, however, that at any time in any intervening year of assessment a taxpayer could give notice that he elected not to take the mills, factories allowance, in which case the appointed day becomes the first day of the year of assessment in which the election is made (Section 7).

As explained in a letter from the Public Relations Officer of Inland Revenue, in ACCOUNTANCY for April, 1949, any notice provisionally given may (by concession) be withdrawn.

We have now received a further letter from the Public Relations Officer announcing that the period within which such notices may, if desired, be withdrawn, will expire on April 5, 1950.

Compulsory Remittances of Foreign Income

On December 15 the Chancellor of the Exchequer was asked whether he had any statement to make about the extra-statutory war-time concessions No. 6 (Income Tax) and No. 2 (i) (Death Duties) which his predecessor said, on May 16, 1947, were being continued as a purely temporary measure.

Sir Stafford Cripps replied: I have decided to withdraw concession No. 6 (Income Tax) under which collection of tax has been deferred in certain cases involving compulsory remittances of foreign currency.

In cases where consideration moneys, being the proceeds of such compulsory remittances, have been kept in a specified bank account or in identified investments and collection of tax has been deferred under the concession, I propose that the tax shall be regarded as becoming due and payable on June 15, 1950, subject to the proviso that if any part of the consideration moneys is remitted abroad before June 15, 1950, it will be treated for tax purposes as not having been remitted to the United Kingdom and the amount of tax collectible will be reduced accordingly. The proviso will also apply in cases where moneys which have already been received have been kept in a specified bank account or in identified investments but have not yet been assessed to tax and in cases where moneys similarly identifiable are received between now and June 15, 1950. With regard to consideration moneys received on or after June 15, 1950, any part which is remitted abroad immediately will be treated, for tax purposes, as not having been remitted to the United Kingdom and will be excluded from assessment to tax. Remittances abroad other than to the Scheduled Territories require Exchange Control permission.

Regulation 1 of the Defence (Finance) Regulations, with which the Death Duties concession is linked, does not expire until the end of 1950 and I therefore propose that concession No. 2 (i) shall continue for the time being.

The following subjects are dealt with in Professional Notes: Purchase Tax Statistics; Charities and Income Tax.

Recent Tax Cases

By W. B. COWCHER, O.B.E., B.LITT., Barrister-at-Law

Schedule E—Managing director—Termination of appointment—Claim for arrears of remuneration—Lump sum received including balance of salary up to end of service agreement period—Whether sum received as salary from date of termination to end of service agreement period remuneration or compensation for loss of office.

Henley v. *Murray* (K.B.D., October 26, 1949, T.R. 335) was a case where appellant had a service agreement by which his employment as managing director of a public company in which he had a controlling interest was to continue until March 31, 1944, and thereafter subject to three months' notice on either side. Upon July 6, 1943, he resigned at the request of the directors and in the settlement which followed he was paid the sum of £2,202 in respect of the remuneration which he would have received had he continued to serve up to March 31, 1944. It had been claimed before the General Commissioners that this sum was not remuneration but compensation for loss of office. The Commissioners had found that it was remuneration and Croom-Johnson, J., affirmed their decision. He said that in *Chibbett* v. *Joseph Robinson and Sons* ((1924) 9 T.C. 48) it had been held that the question was one of fact and the right conclusion was that in the circumstances of the case the sum received was a payment of salary under the agreement and assessable. In the course of his judgment he said :

> I have no doubt that the appellant might have made a bargain with the company, an express bargain under which he was to be paid compensation for loss of office. . . . If he had . . . he would have saved a good deal of tax.

As the Judge remarked, the case was very like that of *Hofman* v. *Wadman* (1946, 27 T.C. 192), and it is another illustration of the wisdom of taking advice before rather than after.

Income tax—Deduction—Brewery—Tied houses—Rents paid by brewers under long leases—In arriving at brewing profits rents first allowed and then disallowed by additional assessment—Discovery—Rents paid by tied tenants less than rents obtainable if let as free houses—Whether difference admissible as deduction—Income Tax Act, 1918, Section 125, Schedule D Cases I and II, Rule 3 (a) (c) (m)—Finance Act, 1940, Sections 13, 17.

Tamplin & Sons Brewery, Brighton, Ltd. (K.B.D., October 24, 1949, T.R. 321), raised two points, the first, which was not argued, being whether a change of mind upon the part of the inspector constituted " discovery " within Section 125 of Income Tax Act, 1918. That point had been decided in favour of the Revenue by the Court of Appeal in *Commercial Structures, Ltd.* v. *Briggs* (1948, T.R. 329), noted in our issue of February, 1949, and an appeal to the House of Lords is, therefore, contemplated as a possibility. The second point arose out of the " tied house " system. In *Usher's Wiltshire Brewery, Ltd.* v. *Bruce* (1915, A.C. 433, 6 T.C. 399) it had been held in the House of Lords *inter alia* that, where a brewery rented a licensed house and then let it subject to " tie " to a tenant at a lower rent, the difference was deductible in computing the profits of the brewery. By Section 17 of Finance Act, 1940, it was provided that rents under certain " long leases " should be charged under Case VI of Schedule D and be treated as patent royalties, i.e., be subject to deduction of tax and disallowed as deductions in computing profits. By Section 13 of the same Act the definition of a " long lease " includes a lease granted for a term exceeding 50 years ; and it had been found that the rents paid by the appellant came within the definition, with the result that, by the additional assessments made, the brewery would lose the benefit previously derived from the *Usher* case. Incidentally, it would appear from the judgment that the landlord of the properties rented by the brewery company was a subsidiary company, so that but for Section 17, in the event of the rents paid exceeding the Schedule A assessments the differences by escaping taxation would benefit the appellant.

The new argument put forward in the present case was based upon passages in the judgment of Lord Sumner in the *Usher* case, in particular :

> A trader who utilises for the purposes of his trade something belonging to him, be it chattel or real property, which he could otherwise let for money, seems to me to put himself to an expense for the purposes of his trade. He does so equally if he hires or rents for that purpose property belonging to another. The amount of his expense is *prima facie* what he could have got for it by letting it in the one case and what he pays for hiring it in the other.

And what was claimed here was that, on the basis of the Sumner judgment, and in spite of Section 17, where it could be shown that the appellant could have let premises as a *free* house at a higher rent than that received from the *tied* tenant the difference was deductible in computing its Case I liability. In other words, it was claimed to deduct a notional figure. In *Loury* v. *Consolidated African Selection Trust, Ltd.* ((1940 A.C. 465, 23 T.C. 259), Lord Russell of Killowen, pointing out that the Sumner judgment, if taken literally, would lead to startling results, refused to apply it to the case before him.

Croom-Johnson, J., upholding the decision of the Special Commissioners in favour of the Crown, said it was admitted that the claim was not covered by any provision of the Income Tax Acts and, in view of Lord Russell's judgment in the case last mentioned and his " own imperfect examination and reasoning," he considered what Lord Sumner said to be *obiter dicta* which he did not propose to follow. The case will, no doubt, go further.

Income tax—Deduction—Brewery—Tied houses—Rents paid by brewers under long leases—Lower rents received by brewers from " tied " tenants—(1) Difference between total rental value free of " tie " and total rents received from tied tenants—Whether deductible as expense of brewer's trade—(2) Difference between total value assessed Schedule A and total rents received from tied tenants—Whether deductible as expense of brewer's trade.

Webbs (Aberbeeg), Ltd. v. *Davies* (K.B.D., October 25, 1949, T.R. 327) came before Croom-Johnson, J., the day after he had given his decision in *Tamplin & Sons Brewery, Brighton, Ltd.* v. *Nash*, noted in this issue, where the first point in the present case had been decided against the brewery company. Only the second point, therefore, fell to be considered ; and whilst the Special Commissioners had found for the Crown upon the first point they had held, following *Collyer* v. *Hoare & Co., Ltd.* (*No. 2*) (1938, 21 T.C. 318), that the company was entitled to deduct as a trade expense the difference between the gross Schedule A assessments and the rents received from the tied tenants.

Croom-Johnson, J., reversed their decision. He said that on the basis of the case last mentioned the company would be entitled to deduct the difference between the rents paid by it or the Schedule A assessments, whichever were the greater, and the rents received from the tenants. As, however, the leases to the company were, under Section 17 of Finance Act, 1940, " long leases " and deduction of the lease rents was prohibited, what the claim amounted to was that although the section precluded deduction of the lease rents it did not preclude deduction of the Schedule A annual values. Upon the question of whether under the *Hoare* case the deduction

was to be gross or the net Schedule A assessment, he found that the heading to that case was misleading. Although Finlay, J., had said that, personally, he thought gross was right, he did not have to decide it because the point had been conceded by the Crown, and Croom-Johnson, J., held that he was not bound by it and did not agree. He held that either the difference between the Schedule A assessment and the tied rent was something which the subject was entitled to deduct under Rule 3 (*a*) to Cases I and II of Schedule D as money disbursed, etc., within the Rule or it was not; and, in substance, he held that it was not. The case will, no doubt, go further. The judgment itself would, therefore, seem to be that, whilst the claim was rejected altogether, in any event the deduction would not be one of the *gross* Schedule A. It is, however, one which, on the vexed question of how far judges should revise their spoken judgments in the interests of clarity, furnishes an argument for revision as far as necessary.

Income tax—Pay-as-you-earn—Theft from employer of tax deducted from wages of servants—Whether employer accountable to Crown for amount deducted—Income Tax (Employments) Act, 1943, Section 2—Income Tax (Employments) Regulations, 1944 (No. 251), Regulation 27.

In *Attorney-General* v. *Antoine* (K.B.D., November 2, 1949, T.R. 345), the issue was that stated in the heading. It appears that the respondent had put the money deducted as tax from her servants into a separate bag and that this bag had been stolen with other bags from her safe. The money was in notes and coins and the bag was specially marked. Croom-Johnson, J., pointed out that there was apparent confusion between two things, that the money in question was the money of or at the risk of the Revenue, which it was not, and that the bag of money was her own money, which it was. Counsel, however, put up the "courageous" argument that if the respondent were held liable to pay out of her own money the amount of tax lost from the bag, that would in effect be to tax her in respect of the wages of her servants, a tax not authorised by Parliament. A letter of February 1, 1946, after stating the facts, apparently suggested that she had, by putting the money in the bag, "fully and truly accounted for" the said sum of money; and the Judge remarked that "whoever put that forward must have put it forward with his tongue in *both* his cheeks". (A somewhat difficult feat?)

Croom-Johnson, J., in the course of his judgment for the Crown, remarked that the respondent:

> might have drawn from the bank such a precise sum as would enable her to pay each and every one of her employees' net amount of the weekly wages less the appropriate deduction of tax under the tables. . . . If one can imagine the case of anybody receiving 21s. a week, all she had to do was to hand him a sovereign. She need not have had a shilling at the pay table—she need not of necessity have had a shilling in her possession *otherwise than at her bank.*

In the last five words of the above passage from the judgment a view is indicated upon a point which must often arise in connection with obligatory deductions of tax under the Income Tax Acts. But no light is thrown upon the position where the lady does not possess the extra shilling and has no means of getting it. The legal position of the payee in such circumstances would seem to be unfortunate in that there has, in fact, been no "deduction." In practice, the loss probably falls on the Revenue.

Income tax—Divorce proceedings—Annuity for maintenance of wife—Draft deed by wife's solicitors providing for "such a sum as after deduction of income tax at the rate of not more than 7s. 6d. in the £ shall represent £1,000 per annum"—Draft deed altered by husband's solicitors to "the sum of £1,000 per annum free of British income tax up to but not exceeding 7s. 6d. in £"—Alteration accepted—Payments by husband on footing of original proposal—Sur-tax—Whether deed can be rectified ab initio *—Income Tax Act, 1918, General Rules No. 23 (2).*

Whiteside v. *Whiteside* (C.A., December 3, 1949, 2 A.E.R. (1949) 913) was the subject of an extended note in our issue of August last and in the Court of Appeal the decision of Harman, J., in the Chancery Division was unanimously affirmed. Evershed, M.R., giving the main judgment, said:

> The deed having been executed in that form, the result in law was that the right of the wife was limited to receiving £1,000 less income tax on that figure and not a gross sum free of tax, and it was the right, *and in strictness the duty*, of the husband to deduct the tax.

His Lordship in the last part of the above passage was apparently regarding the payments as being governed by Rule 21 of the General Rules, Income Tax Act, 1918, whereas they were clearly within Rule 19 of the same rules. Under the latter, there is no *duty* to deduct and, whether the payor exercises his right to do so or not, "no assessment shall be made upon the person entitled to such interest annuity or annual payment."

The Master of the Rolls referred to his own judgment as Evershed, J., in *Van der Linde* v. *Van der Linde* (1947, Ch. 311), noted in our issue of October, 1947. There, plaintiff had made *unilateral* covenants for the benefit of his two sisters and another lady; and in the actual case before the Court he asked for rectification of a covenant for "an annual sum of £400" so as to be one for a net amount of £400 after deduction of tax as actually paid. The application had been refused. The circumstances of that case were, however, essentially different. In actual fact, the sole object of the deeds in the *Van der Linde* case was to make the voluntary allowances the plaintiff had been in the habit of making allowable in the future as deductions for sur-tax purposes. In his judgment, Evershed, J., had said, "I assume that in point of fact the defendant probably never knew of the existence of the covenant," a remark which clearly indicated the nature of the deed. He said, however, that it was impossible to reach a clear view as to what was the plaintiff's real intention but, in so far as sur-tax relief was intended, he certainly did not feel disposed to exercise the remedy of rectification in the form suggested.

Here, however, the circumstances were quite different, the defective deed arising out of a divorce action with all that normally implies as to the relations between the parties. Further, there never was any doubt as to the real intentions on both sides. At the same time, there was this obstacle to rectification, namely, that the husband had taken no advantage of the mistake, one which originated with his own solicitors. As a consequence, there was no real issue between the parties. The mistake had been discovered by the Revenue some years after the execution of the deed; was promptly remedied by agreement; but, without rectification by the Court, could not be made retrospective. Had, however, the husband tried to take advantage of the mistake, then, in the words of the Master of the Rolls:

> I agree that on the facts the case has worked somewhat of a hardship on the husband, and had he, having got the document in this form, stood on the strict rights which it conferred, there is no doubt, I assume, that the other party, namely the wife, could successfully have sued him for rectification.

The mistake had arisen originally through the husband's solicitors not realising that, whilst agreements which are by consent made Court orders are not agreements for the purposes of Rule 23 (2), agreements not so made are. The result of the case is substantial injustice; and, with regard to this, as mentioned in the earlier note, the Crown, as the only person concerned beyond the plaintiff, had declined an invitation to be joined as a party. What would have been the result had it accepted is a matter for speculation; but in the special circumstances, and in view of the result, this washing of hands can scarcely be looked on as commendable.

The Month in the City

The Exchequer Conversion

THE PRINCIPAL EVENT ON THE STOCK Exchange in the past month was the conversion of the Exchequer 1¾ per cent. bonds maturing on February 15, 1950, and the chief feature of that operation is its complete neutrality. The Chancellor, having intervened last month to "squeeze the bears," had succeeded, with a very minor amount of actual buying, in raising gilt-edged prices to a point at which the yield obtainable was rather more than a quarter of a point below what it had been at its recent peak. The Treasury was not only content to restrict its intervention to that amount, and to avoid any other special preparation for its conversion operation ; it also carried out the operation with the minimum of disturbance either to the credit structure or to gilt-edged prices.

The Treasury did this by offering, at a price strictly in line with existing quotations, a security of the type most popular among holders of the maturing bonds. The new security is a bond with a life of exactly five years and with a single redemption date. The offer was abundantly successful. Even making allowance for the fact that probably more than half the issue was held by the Governmental or semi-Governmental bodies a response in the neighbourhood of 92 per cent. is no mean achievement. The lesson seems to be that the Chancellor of the Exchequer, much as he appears to dislike the rise in the rate of interest and intent as he still is on resisting its spread, is not prepared to indulge in anything more than the most modest interference with the market to resist the movement. In this he is wise.

Apathetic Investors

The man-in-the-street investor has been little concerned with the Exchequer conversion, although it is likely to have its indirect effects on the value of his holdings. He has received with almost equal apathy the news of the change of Governments in New Zealand and Australia. Those who see in the election results an indication of what is likely to happen in our general election may well be in error. The changes in the two Dominions across the world, like the earlier developments in Continental Europe, may mark an alteration in world opinion, but it is by no means certain that the United Kingdom will immediately follow this reversal.

None the less, the Commonwealth has taken a step which may well prove to merit more attention from the investor than is reflected in the modest rise in Australian bank shares. The new Australian Government will certainly be more friendly than the old towards capital. Like the old Government, it will be more kindly disposed towards Britain than is the present South African counterpart. The change may suffice to make Australia quite clearly the most attractive refuge for sterling funds seeking investment outside the United Kingdom. Although the opportunities for investment may be less than in South Africa, that will merely mean that the impact of any transfer of funds will be the greater and an improvement in prices the more immediate. A further reason for investing in Australian securities, particularly equities whether expressed in local currency or in sterling, lies in the fact that the new Government is attracted by the idea of an appreciation of the Australian pound in terms of sterling, whether to parity or to something rather less ambitious. There seem to be good economic arguments in favour of such a step, at least in the short run. But these are likely to come up against political resistance from the Country Party, without whose support the Liberals could hardly carry on.

For the rest, the market has had little to encourage it beyond the rather better export figures. The limited movements in the indices of the *Financial Times* give a fair picture of the lack of interest in the stock markets. The indices for fixed-interest securities and for the Funds moved from 120.94 to 121.80 and from 105.80 to 105.70 respectively during the three and a half weeks ended on December 21. In that period there was a small rise in gold mining shares, while the index for industrial equities rose from 102.6 to 105.8, the highest since mid-October.

Cable and Wireless Decision

The shareholders of Cable and Wireless have made it quite clear that they do not share the views of the board on the future conduct of their property. The official resolutions, which required a 75 per cent. majority for acceptance, were only adopted by a minority which appears to have included the votes controlled by the board itself. The rejection of the scheme, however, left the way open for an alternative proposal short of actual liquidation. It is plain that, difficult as it is at the moment to constitute a satisfactory investment portfolio, the bulk of the shareholders think they can do better for themselves than the old board proposed to do. One supposes that what the shareholders found objectionable was the size of the investment trust which it was proposed to set up and the cost of running it, rather than the idea of leaving funds in the control of men who have in fact controlled them for many years. However, this is a question which can only be answered by the vote on the new scheme and the scheme is unlikely to be produced for some considerable time. Whatever the feelings of the shareholders, they need not be much influenced in their decision by the problem of liquidating a large block of securities at the present time. The difficulties may be great but the problem of arranging that any shareholder who wants his funds at once can obtain them will be solved by the market overnight once it is known what the fate of the enterprise is to be. Independently of whether the company is to be liquidated or not shareholders ought, however, to be given a much better idea of the composition of the remaining assets than has so far been vouchsafed them.

Points from Published Accounts

Simplified Presentation

In his speech on the inside cover of the accounts of *Burt, Boulton & Haywood*, the chairman states that the form of presentation of accounts is appreciably different from that of past years. "The requirements of the Companies Act of 1948 necessitated considerable experimental work in its early stages by accountants, but gradually a new form of presentation of accounts is being evolved and these now before you are in keeping with the modern trend of thought and practice on such matters." Certainly the company has broken new ground in stripping the accounts of details and summarising these in six schedules, which tabulate the material required by the Companies Act. The first deals with fixed assets and is reproduced on this page as a matter of interest; the second sets out current assets and current liabilities; the third, share capital and reserves; the fourth, investment and miscellaneous income; the fifth, directors' remuneration; and the sixth, the appropriations from profits. In the result the balance sheets and profit and loss accounts (the company has operating subsidiaries) are nothing more nor less than précis, but they do provide a simplified picture.

Taxation in Company Accounts

From the constant appearance of taxation credits relating to earlier years in company accounts it is obvious that the taxation charge shown can be only an approximation of the absolute truth. Some companies ignore this, however, and show "Taxation based on the profits of the year." This is a widely adopted and usually unqualified description, but others shun such rigidity. *Aerated Bread*, for example, deducts "Taxation (estimated on profits for year to date)." On the other hand, *British Celanese* strikes a net profit before taxation and shows "Taxation thereon" without any ado, though there is perhaps a qualification in the immediately adjacent transfer to taxation equalisation account.

Some, but by no means all, companies go to the trouble of explaining the basis of calculating the taxation liability (important where there have been initial allowances or heavy expenditure on deferred repairs), and *Arthur Guinness, Son & Co.* includes this footnote relating to the parent's profit and loss account: "The basis of the provision for income tax is: (*a*) the statutory liability for the year (viz., one-half of 1948-49 and one-half of 1949-50 assessments), less (*b*) income tax on the excess of the profits included in (*a*) over the current profits." In a further note to the parent's balance sheet it is stated: "The basis of computation of the amounts set aside for income tax is: (*a*) In Current Liabilities—the statutory liability accrued to date (including one-half of the 1949-50 assessment). (*b*) In Taxation Reserve—a sum sufficient to cover the balance of the 1949-50 assessment and approximately three-quarters of the 1950-51 assessment."

FIXED ASSETS	Balance Parent Company 31.3.48 Subsidiaries 31.12.47	Additions during the period	Depreciation for period	Exchange and Depreciation Adjustments	Book Value of Sales and Depreciation provided thereon	BALANCE English Companies March 31, 1949. Foreign Companies December 31, 1948	
PARENT COMPANY:	£	£	£	£	£	£	£
Freehold Land: Book value at June, 1927, and subsequent additions at cost, *less* sales at above values	94,956	380			1,714	93,622	
Less Depreciation	1,458		475		1,208	725	92,897
Buildings, Plant, Vehicles and Furniture: 1927 Valuation, and subsequent additions at cost, *less* sales at above values	532,772	98,575			11,378	619,969	
Less Depreciation	227,621		31,300		9,187	249,734	370,235
Parent Company's Accounts	£398,649		£31,775				£463,132
ENGLISH SUBSIDIARIES:							
Buildings, Plant, Vehicles and Furniture—at cost ..	33,420	2,509			2,477	33,452	
Less Depreciation	25,017		1,725		1,874	24,868	8,584
	£8,403		£1,725				
FOREIGN SUBSIDIARIES:							
Freehold Land, Buildings, Plant, etc.—at cost	197,229	45,097		3,418	1,192	237,716	
Less Depreciation	36,396		11,963	4,916	852	42,591	195,125
At Valuation in 1945	95,027					95,027	
Less Depreciation	17,962		11,865			29,827	65,200
At Valuation in 1946 and subsequent additions at cost	13,295	15,260				28,555	
Less Depreciation	1,035		2,963			3,998	24,557
	£250,158		£26,791				£284,882
Consolidated Accounts	£657,210		£60,291				£756,598

Publications

HANDBOOK OF COST ACCOUNTING METHODS. Edited by J. K. Lasser. (*D. Van Nostrand Co., Inc., New York; Macmillan & Co., Ltd., London. Price £3 15s. net.*)

This is an immense publication in every sense of the word. It runs to over 1,300 pages and is the work of about seventy contributors. Written from a practical point of view, this book emphasises the practical value of cost accounting to management, discussing the facts that management must have and how they should be presented. The emphasis throughout is on the control of costs.

The first section deals with principles and methods of cost accounting, giving much space to the problems and practical application of job, process and standard costs, each method of costing being discussed in detail, its advantages and disadvantages being pointed out and comparisons drawn as to relative value of each system. Valuable chapters on variable budgets are included, and the detailed uses of variance reports are discussed. In the chapter on forecasting and planning there are some very good studies of the relations between cost and volume.

The problem of selling and distribution costs is investigated in detail and practical methods of costing this often neglected phase of business are detailed.

On one point, however, there seems to be a difference of opinion between American and British ideas. It is emphasised by several contributors to this volume that "financial and cost accounts need not be integrated or even reconciled," while in Britain we have already accepted the idea of integrated accounts, with no separate cost ledger, as the ideal.

There is a very informative survey in which the status of cost accounting in industry is set forth, showing the extent to which cost systems exist, the types of cost system in use and the extent to which prime, manufacturing and total costs are available. From this survey conclusions are drawn, charging management with failure to keep adequate cost systems, and with failure to use costs when they are available.

The second section deals with methods of costing in use in specific industries, of which sixty-one are described. The majority of major business activities are covered, but some unfortunately are omitted. Each industry is dealt with by an expert who first of all discusses the problems in that particular industry, then deals with the type of information required by management and finally describes a practical method of costing which will give the desired information.

An extensive bibliography is included which covers numerous other industries and rounds off a very extensive tour of applied cost accounting.

The wealth of information presented and the number of industries specifically reported make this a most valuable book of reference to the industrial accountant, and should provide students with ample food for thought. It is a book which should not be missed. H. K.

COST ACCOUNTING. By James H. March, M.B.A., C.P.A. (*McGraw Hill Book Co., Inc., New York, Toronto and London. Price £2 2s. 6d. net.*)

This is an excellent book for industrial accountants. Throughout, the author lays emphasis on cost accounting as an integral part of management, enabling management to focus its attention on those portions of the business which are not proceeding to plan. Cost control as opposed to cost finding is heavily stressed.

Emphasis is laid on budgetary control, the variable or flexible budget being described as the principal tool of management. The author states that: "Budgetary control enables cost reports to be drawn up to point out variations from the standard performance, and enable the executive to direct his attention to situations that merit attention." It is emphasised, however, that these reports must be available before it is too late to correct conditions that are unsatisfactory. Management to-day is not nearly so effective as it might be, because of this delay in presenting period reports.

This book is written from a practical point of view and gives numerous illustrations of practical methods of dealing with the various phases of cost accounting. Process costing, job costing and standard costing are investigated in detail and conclusions drawn.

Operation and process costs are given more prominence than job costs to which, perhaps, too much space has been devoted. Cost accountants will readily take the author to task for his statement that: "Standard costs appear to be limited to plants in which the kinds of raw material and the manufacturing processes are relatively few in number," as standard costs can be applied almost universally, the only limitation being the ability of the cost accountant and the engineer to predetermine the effort and the material consumption required to fulfil the production budget. Indeed, without these requirements there can be no adequate budgetary control.

The chapters on standard costs and variable budgets are well written and the author makes it clear that "management by exceptions," or variations from standard, is the most efficient kind of management. One point which is well brought out, and needs to be emphasised to the industrial accountant, is that keeping fixed and variable costs separate will make management more conscious of its responsibility to carry through a programme of long-term control of stand-by or fixed costs. This control of fixed costs is insufficiently appreciated by both management and accountants in general.

This book is refreshing and easy to read, although American terms and nomenclature are frequently met with. A good index is provided, and there are twenty pages of questions for discussion and eighty pages of problems, which should be very useful to the student of cost accounting.

For the industrial accountant this is an invaluable book, one which must be included in his library if he wishes to keep abreast of modern thought. H. K.

GUIDE TO EXAMINATION SUCCESS. By Frank H. Jones, F.A.C.C.A, F.C.I.S. (*Barkeley Book Co., Ltd., Stanmore. Price 3s. net.*)

This book was reviewed in our December issue. The price is 3s. net, not 7s. 6d. as there stated.

The Income Tax Acts

The bound volume of Income Tax Acts published in 1941 has been out of print and unobtainable for some years. It has now been reprinted and brought up to date to include legislation in force up to and including 1948-49 for income tax and sur-tax.

The new volume is in loose-leaf form, in a binder. To keep it up to date, it is intended to issue each year a Supplement containing a special print of the Income Tax Sections of the Finance Act for the year (and of any Statutory Instruments containing regulations made by the Commissioners of Inland Revenue, etc.), together with reprinted pages of the main volume where material amendments, etc., of existing legislation are involved. Minor amendments will generally be made by means of gummed slips. An annual cumulative supplement to the main index will also be included. The Supplement will be in loose-leaf form for incorporation in the main volume.

Accountants will be glad to know that this useful publication is available again. Its price is 30s., complete with binder (31s. post free).

Letters to the Editor

Belcher v. Reading Corporation

SIR,—I read with interest the account of the above case printed on page 317 of the December issue of ACCOUNTANCY, but would like to draw attention to one point where inaccuracy may lead to false conclusions, unless corrected.

In paragraph three of the report the following words appear :

> Incidentally, it would appear that once any such surplus appeared on the housing revenue account, it would have been beyond the authority's powers to apply the surplus for reduction of the rents of council houses.

During the course of the judgment the Judge stated that there was no provision in any statute *requiring* the local authority to apply si ,pluses in reduction of rents, and this does not mean that the authority must not so apply the surplus. On the contrary, under Section 21 of the Housing (Financial and Miscellaneous Provisions) Act, 1946, a local authority has power to apply a surplus in any way which the Minister of Health approves.

A surplus can be used to reduce rents but it is more usual for a local authority to use it in repaying the ratepayers for any deficiency in the past four years and to meet rising costs.

Yours faithfully,

G. C. JONES,
Borough Treasurer,
Reading.

December 15, 1949.

Maintenance Claims

SIR,—There appears to be some confusion of thought as to the correct method of computing maintenance claims in cases where excess rents are involved and the tenant bears part of the cost of repairs.

I have recently been in correspondence with an eminent firm of land agents who have insisted that the proper deduction from the average cost of maintenance for the preceding five years is the normal Statutory allowance, without any adjustment in respect of the tenant's liability for a proportion of the repairs. For example, in the case of a property let at £110 per annum, the tenant executing repairs, with a gross annual value of £102, a net annual value of £81 10s. and landlord's average maintenance expenditure of £35, they have computed the excess rents assessment and maintenance claim as follows :

Excess Rents Assessment			
Rent receivable ..	£110	0	0
Plus : Repairs 10% ..	11	0	0
	121	0	0
Less : Repairs allowance	23	0	0
	98	0	0
N.A.V.	81	10	0
Excess Rents ..	£16	10	0
Maintenance Claim			
Cost of Maintenance (average of five years)	£35	0	0
Less : Statutory Repairs Allowance (based on G.A.V. £102) ..	20	10	0
	£14	10	0

If this method is adopted, tax will be paid on a total of (£81½ plus £16½ minus £14½) equals £83 10s.

There can be little doubt, however, that the correct method is to deduct from the average maintenance expenditure the repairs allowance as computed for the purpose of the excess rents assessment, less the uplift in respect of repairs carried out by the tenant, i.e., in the case above, £23 minus £11 equals £12. The amount of the maintenance claim will then be £35 minus £12 equals £23, so that the total tax payable will be upon (£81½ plus £16½ minus £23) equals £75.

A more direct method of arriving at the same result is to deduct the average actual expenditure from the actual rent receivable, thus :

Rent Receivable	£110	0	0
Maintenance Expenditure (average of five years)	35	0	0
	£75	0	0

While this is only the equitable method of dealing with such a claim, and is normally accepted by the Inland Revenue, in view of the absence of direct statutory authority it will be of interest to hear of any cases in which your readers have experienced difficulty in obtaining the agreement of H.M. Inspector of Taxes.

Yours faithfully,

ANTHONY HONE, A.C.I.S., A.S.A.A.

London, S.E.15.

November 30, 1949.

[The legal position where a tenant carries out part repairs is that maintenance relief should be restricted to the excess of the average expenditure over the full repairs allowance, but the Board of Inland Revenue are prepared to compute the relief by reference to the owner's average expenditure and the portion of the repairs allowance which relates to the owner's liability for repairs. (This portion is normally the amount of the total repairs allowance, less the addition to be made to the rent in respect of tenant's repairs in computing the correct annual value.)

Applying that to these figures we get :

Gross Schedule A. £110 + £11		£121
Repairs		23
Net		98
i.e., Net Annual Value £81 10s. Excess rents £16 10s.		
Relief due on average repairs ..		£35
Statutory allowance	£23	
less addition	11	
		12
Maintenance relief due on		23

Tax payable on £98 – £23 or £75

EDITOR, ACCOUNTANCY.]

BOOKS RECEIVED

CASES IN CREDITS AND COLLECTIONS. By Theodore N. Beckman, PH.D., and Schuyler F. Otteson, PH.D. (*McGraw-Hill Publishing Co., Ltd., New York and London. Price £1 18s. 6d. net.*)

BOOK-KEEPING AND ACCOUNTANCY. By Andrew Munro, F.C.I.S. (*Sir Isaac Pitman & Sons, Ltd., London. Price 10s. 6d. net.*)

MILLNER'S QUESTIONS AND ANSWERS ON COMPANY LAW. By Peter Allsop, M.A. Second edition. (*Sweet & Maxwell, Ltd., London. Price 22s. 6d. net.*)

SHAW'S COMPANY GUIDE AND DIARY FOR 1950. By Gordon E. Morris. (*Shaw & Sons, Ltd., 7-9, Fetter Lane, London, E.C.4. Price 8s. 6d. plus purchase tax and postage.*)

GUIDE TO COMPANY SECRETARIAL WORK. By G. K. Bucknall, A.C.I.S. Eleventh edition. (*Sir Isaac Pitman & Sons, Ltd., London. Price 7s. 6d. net.*)

AN EXECUTOR'S ACCOUNTS. By E. Miles Taylor, F.C.A., F.S.A.A., S. C. Hough, A.I.B., and O. Griffiths, M.A., LL.B. Tenth edition. (*Textbooks, Ltd. and The British College of Accountancy, Ltd. Price 25s. net.*)

TOLLEY'S COMPLETE INCOME TAX CHART-MANUAL, 1949-50 (with Eire Supplement). Compiled by Kenneth Mines, F.A.I.A., F.T.I.I., and L. E. Feaver, A.S.A.A., F.C.I.S. (*Chas. H. Tolley & Co., 94, Gleneldon Road, Streatham, S.W.16. Price 10s. 6d. Without Eire supplement 10s. Eire supplement separately 1s.*)

INCOME TAX LAW AND PRACTICE. By Cecil A. Newport, F.C.R.A., and Oliver J. Shaw, Barrister-at-Law. Twenty-first edition. (*Sweet & Maxwell, Ltd., London. Price 20s. net.*)

NATIONAL INSURANCE. By John Gazdar, LL.B. Second edition. (*Stevens & Sons, Ltd., London. Price 4s. net.*)

Legal Notes

Discretion of the Court to assist judgment creditors who have failed to complete execution against a company before liquidation.

Section 325 (1) of the Companies Act, 1948, provides that :

> where a creditor has issued execution against the goods or land of a company or has attached any debt due to the company, and the company is subsequently wound up, he shall not be entitled to retain the benefit of the execution or attachment against the liquidator in the winding-up of the company unless he has completed the execution or attachment before the commencement of the winding-up : Provided that . . . (*c*) the rights conferred by this sub-Section on the liquidator may be set aside by the Court in favour of the creditor to such an extent and subject to such terms as the Court may think fit.

In *re Grosvenor Metal Co.* (1949, Weekly Notes, 440) a judgment creditor, who had failed to complete execution against a company before its liquidation, applied for an order that his debt should be paid out of the proceeds of sale of the effects of the company. Vaisey, J., said that earlier Companies Acts contained similar provisions except that proviso (*c*) was new. Under those Acts the Courts had decided they had power to give relief to a judgment creditor but only if he had been induced by trickery to postpone execution (*Armour-duct Manufacturing Co., Ltd.* v. *General Incandescent Co., Ltd.*, 1911, 2 K.B. 143). His Lordship held that Section 325 (1) of the 1948 Act had now given him a wider discretion and, though he acquitted the officers of the company of any dishonesty, he made a declaration in favour of the judgment creditor.

Gravity of deliberate offences under the Exchange Control Act, 1947.

An elderly woman of small means attempted to take out of the country £85 in Bank of England notes. She admitted that she knew this to be an offence but said that it was a matter of life and death to her to take the money to Italy to her son, who had no work and was in debt. The justices held that there were extenuating circumstances and dismissed the information against her under the Probation of Offenders Act. The Divisional Court in *Pickett* v. *Fesq* (1949 2 A.E.R. 705) decided that the justices were wrong in taking this course : the offence was grave and deliberate and the case must be remitted to the justices with an intimation that it was their duty to impose a penalty.

Landlord and tenant—Measure of damages for breach of covenant to repair.

It has long been held that the damages for a breach of covenant to repair are to be measured by the fall thereby caused in the value of the reversion, which may or may not be the same as the cost of putting right the defects. In particular, by Section 18 of the Landlord and Tenant Act, 1927, no damages are to be recovered if it is shown that the premises, in whatever state of repair they might be, would have been pulled down at or shortly after the termination of the tenancy.

In *Cunliffe* v. *Goodman* (1949, Weekly Notes, 465), a tenant had agreed to keep the demised premises in repair and to reinstate them as a dwelling-house at the end of the tenancy. The landlord had wished to pull the premises down at the end of the tenancy but found that she could not get the necessary licences. She contended that (*a*) that wish did not constitute such an intention to pull down as would bring the case within the terms of Section 18 ; (*b*) that the agreement to reinstate was distinct from the agreement to repair and did not fall within Section 18.

Lord Goddard, C.J., followed *Salisbury* v. *Gilmore* (1942, 2 K.B. 38). He held that the material time was the end of the tenancy: at that time the landlord wished to pull down the premises and tried to obtain the necessary consents : that was the same thing as intending to pull down the premises. Further, on the wording of the agreement before him, the agreement to reinstate fell within the obligation to repair. Consequently, the landlord was not entitled to any damages.

Simley v. *Townshend* (1949, 2 A.E.R. 817) was a little more complicated. Leasehold property, the subject of a covenant to repair, was requisitioned in 1944. In 1945 the lease was assigned to the defendant and in 1947 the lease came to an end.

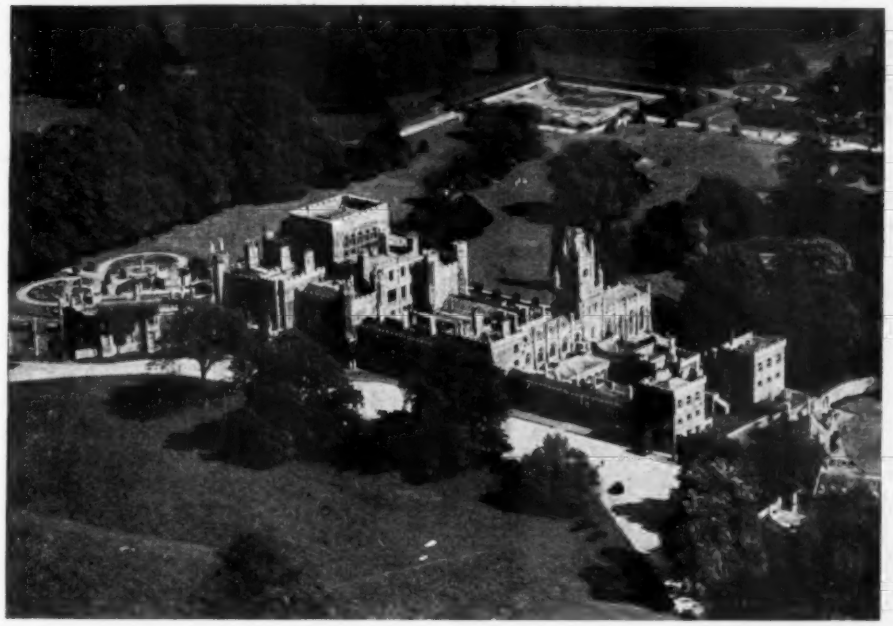
By Section 1 (1) of the Landlord and Tenant (Requisitioned Land) Act, 1944, if leased premises are requisitioned, no remedy for breach of any repairing covenant may be enforced in respect of any damage to the premises occurring during the period of requisition and if the lease determines during the continuance of the requisition, no remedy for breach of covenant may be enforced as respects that damage. Accordingly the landlord had prepared a schedule of defects existing at the date of requisition and had costed them on the basis of prices prevailing at the end of the lease. He claimed that this represented the fall in the value of his reversion for which the tenant was liable.

The tenant argued that no damage had been caused to the reversion because at the date when the lease expired the premises were, and were likely to remain, requisitioned. Consequently, even if the tenant had carried out the repairs in accordance with his covenant, the benefit of those repairs would have disappeared. Lynskey, J., held this argument to be fallacious. The reversion could be sold at the expiry of the lease whether or not the premises had been de-requisitioned, and he found as a fact that upon a sale the existence of the defects would have diminished the price.

His Lordship held, however, that the tenant would not necessarily be liable for all the defects existing at the date of the requisition : he could take advantage of any rectification of those defects carried out before the end of the lease either by himself or by the requisitioning authority. The authority had in fact carried out rectification to the value of £150 and therefore the landlord's claim must be reduced by that sum.

The Court was not, of course, concerned with the situation that would arise if the requisition had ended before the expiry of the lease. Section 1 (1) of the 1944 Act provides that if upon de-requisition compensation for damage occurring during the requisition becomes payable to the person entitled to the benefit of the covenant, no remedy for breach of covenant may be enforced in respect of that damage. Normally compensation would be payable under the Compensation (Defence) Act, 1939. It is submitted by the writer that the correct method of approach is for the landlord to prepare three schedules of defects, the first at the date of requisition, the second at the date of de-requisition and the third at the date of the expiry of the lease. The fall in the value of the reversion should then be calculated on the basis that the tenant is responsible for (*a*) defects existing at the date of requisition which have not been rectified by the time the lease expires and (*b*) defects occurring between the date of de-requisition and the date of expiry of the lease.

Residential Course for Students



A RESIDENTIAL PRE-EXAMINATION COURSE, arranged by the Committee of the Incorporated Accountants' Students' Society of London and District, will be held at Ashridge College, Berkhamsted, Herts, from Monday, April 24, to Friday, April 28, 1950. The Committee wish to take this opportunity of expressing their appreciation of the facilities which have been placed at their disposal by the governors of Ashridge.

This is the first time a residential course of this duration has been arranged, and to mark its inauguration the London Students' Society Committee have extended a cordial invitation to students in all parts of the United Kingdom.

Whilst it will be observed from the syllabus set out below that a very full programme has been arranged, some time has been set aside each afternoon for recreational purposes.

Ashridge, in addition to maintaining a magnificent library of approximately 6,000 volumes, offers excellent tennis courts, football and cricket pitches, billiards and table tennis. Riding, golf and swimming can also be arranged for members attending the course.

SYLLABUS

Monday, April 24

9.15 a.m.-10.30 a.m. "Capital Allowances under the Income Tax Act, 1945," by Mr. H. A. R. J. Wilson, F.C.A., F.S.A.A.

11.0 a.m.-12.15 p.m. "The basis of assessment under Schedule D, in respect of private individuals, partnerships and limited companies," by Mr. H. A. R. J. Wilson, F.C.A., F.S.A.A.

4.30 p.m.-5.30 p.m. "Liquidators: The various types of Liquidation—proceedings, etc.," by Mr. T. W. South, Barrister-at-Law.

5.45 p.m.-6.45 p.m. "The powers and duties of Liquidators during proceedings," by Mr. T. W. South, Barrister-at-Law.

8.30 p.m.-9.30 p.m. "Trustees and Executors," by Mr. T. W. South, Barrister-at-Law.

Tuesday, April 25

9.15 a.m.-10.30 a.m. "Profits Tax," by Mr. H. A. R. J. Wilson, F.C.A., F.S.A.A.

11.0 a.m.-12.15 p.m. "Company Law: Types of Companies—The Memorandum and Articles—Meetings—Directors and Secretaries," by Mr. T. W. South, Barrister-at-Law.

4.30 p.m.-5.30 p.m. "The Auditing Provisions of the Companies Act, 1948," by Mr. A. E. Langton, LL.B., F.C.A., F.S.A.A.

5.45 p.m.-6.45 p.m. "The Accounting Provisions of the Companies Act, 1948," by Mr. A. E. Langton, LL.B., F.C.A., F.S.A.A.

8.30 p.m.-9.30 p.m. "Auditing, with particular reference to Mechanisation," by Mr. J. D. Nightingirl, A.S.A.A.

Wednesday, April 26

9.15 a.m.-10.30 a.m. "Executorship: Death Duty—Estate Distribution—The Personal Representative," by Mr. A. E. Langton, LL.B., F.C.A., F.S.A.A.

11.0 a.m.-12.15 p.m. "The Law of Contract," by Mr. O. Griffiths, M.A., LL.B., Barrister-at-Law.

4.30 p.m.-5.30 p.m. "Consolidated Accounts—Profit and Loss Account with the aid of accompanying notes," by Mr. A. E. Langton, LL.B., F.C.A., F.S.A.A.

5.45 p.m.-6.45 p.m. "Consolidated Accounts—Balance Sheet with the aid of accompanying notes," by Mr. A. E. Langton, LL.B., F.C.A., F.S.A.A.

8.30 p.m.-9.30 p.m. "Bankruptcy: The Acts of Bankruptcy and Proceedings during Bankruptcy," by Mr. O. Griffiths, M.A., LL.B., Barrister-at-Law.

Thursday, April 27

9.15 a.m.-10.30 a.m. "Costing," by Mr. W. W. Bigg, F.C.A., F.S.A.A.

11.0 a.m.-12.15 p.m. "Costing," by Mr. W. W. Bigg, F.C.A., F.S.A.A.

4.30 p.m.-5.30 p.m. "Legal Points in Partnership," by Mr. R. Glynne Williams, F.C.A.

5.30 p.m.-6.45 p.m. "Accounting Points in Partnership," by Mr. R. Glynne Williams, F.C.A.

8.30 p.m.-9.30 p.m. Quiz—Final *v.* Intermediate Candidates.

Friday, April 28

9.15 a.m.-10.30 a.m. "Sundry Problems in Accountancy: Amalgamations, Reconstructions and Branch Accounts," by Mr. R. Glynne Williams, F.C.A.

11.0 a.m.-12.15 p.m. "Economics and Current Topics," by Mr. A. R. Ilersic, B.COM.

2.0 p.m.-3.15 p.m. "The Effect of Devaluation on the Budget," by Mr. Francis Whitmore, City Editor of the *Daily Telegraph*.

As the first lecture commences at 9.15 a.m. on Monday, students attending the course will be required to arrive at Ashridge on Sunday evening. Transport to and from Berkhamsted Station will be arranged free of charge.

Applications to attend this course by students who are not members of the London Students' Society should be addressed to the Honorary Secretary of the Branch or District Society concerned. Members of the London Students' Society should apply direct to the Secretary at Incorporated Accountants' Hall. The last day for receiving applications is Friday, January 30, 1950, but since the accommodation at Ashridge is limited to 200, vacancies will be allotted in date order of receipt at Incorporated Accountants' Hall.

Details, including administrative arrangements, will be sent to successful applicants at the end of February.

THE SOCIETY OF

Incorporated Accountants

SCOTTISH BRANCH JUBILEE

FIFTY YEARS AGO THE SCOTTISH INSTITUTE OF Accountants became the Scottish Branch of the Society of Incorporated Accountants. A jubilee dinner was held in the Central Hotel, Glasgow, on December 1, presided over by the Scottish President, Bailie Duncan R. Matheson, M.A., LL.B., F.S.A.A., of Edinburgh. Amongst those present were the Right Hon. the Earl of Selkirk, O.B.E., A.F.C., The Right Hon. the Lord Provost of Glasgow (Mr. Victor D. Warren, M.B.E., T.D.), Mr. A. Stuart Allen F.S.A.A. (President of the Society of Incorporated Accountants) and Mr. I. A. F. Craig (Deputy Secretary), Mr. J. Percival Agnew, C.A., Deacon Convener of the Trades House of Glasgow, Mr. A. J. Barber-Fleming, Dean of the Faculty of Procurators in Glasgow, Mr. Charles Milne, K.C., Sheriff of Dumfries and Galloway, Mr. J. M. Thomson, President of the Institute of Bankers of Scotland, Mr. Harry Yates, President of the Glasgow Chamber of Commerce, Mr. R. Gordon Simpson, C.A., President of the Society of Accountants in Edinburgh, Dr. Eric Thompson, Principal of the Glasgow and West of Scotland Commercial College, Mr. A. E. Dickson, Past President of the Association of Certified and Corporate Accountants, the Presidents of the local branches of the Chartered Institute of Secretaries, and the Institute of Cost and Works Accountants, representatives of the Inland Revenue, and many others.

The Chairman, in submitting the toast of "The City of Glasgow," paid tribute to the city's fame in trade and commerce and as the Second City of the Empire. He was glad to welcome as their guest Lord Provost Victor D. Warren. A man with the heart of a lion, Mr. Warren had spent his public life largely in conflict. A city with a civic head who displayed such physical and moral courage as he did at the recent convention of Scottish Nationalists was indeed a lucky city. (Applause.)

The Lord Provost, in reply, congratulated the Society and its members on the part they had played and were playing in Scottish industry. Whenever in the course of business he had come across members of the Society he had found them without exception to be men of the highest possible integrity, keen and diligent in their work. Those in charge of the management of industry and commerce found the greatest value in the multifarious statistics collected and audited by Incorporated Accountants.

The commerce of Glasgow was founded primarily on the River Clyde. They must develop a spirit of tolerance and co-operation. Given co-operation and a fair interpretation of the dictum that a man should give a good day's work for a good day's pay, and, perhaps more important than that, a spiritual recognition of the reasons why we were all sent into the world, the city would prosper to a greater extent than it had ever done in the past. (Applause.)

The Right Hon. the Earl of Selkirk, O.B.E., A.F.C., who proposed the toast of "The Society of Incorporated Accountants and Auditors," said that the history and distinction of the Society's members represented in so many important posts in Scotland typified the quality of the men and women in their membership. Modern accountancy came into its own with the beginnings of the joint stock company. It had proved most efficient in commerce and industry and had come to be a sort of statutory conscience. He wondered why the accountancy profession had not paid some attention to Government accounts, to insist that they were presented in a manner that the man in the street could understand.

Accountancy and the legal profession had many things in common, and there was a tremendous duty laid upon the professions in trying to take their proper part in the affairs of local government. Having served on Edinburgh Town Council, he would say that that experience had formed an important part of his life.

He believed it was true that British accountants were unique in their own profession, and there was not a comparable standard elsewhere in Europe or even in America. They were honoured for the standard of integrity which they set, particularly at a time when standards, unfortunately, were not rising. With a membership of some 8,000, their Society carried an immense responsibility. As he understood it, their task was a dynamic one, calling for efficiency and integrity.

Mr. A. Stuart Allen, F.S.A.A., London, President of the Society, acknowledged the toast and expressed his personal thanks for the manner in which Lord Selkirk had spoken. He felt he must single out for special mention that evening the names of Mr. James Paterson, the really Grand Old Man of their Society, and Bailie Matheson, of Edinburgh, their worthy chairman and President of the Scottish Branch. Mr. Paterson had been a member of their Society for more than half a century, and his (Mr. Allen's) personal esteem for him was measured by the fact that his own membership of the Society was no more than half Mr. Paterson's membership of the council. Of Mr. Matheson, he thought it was unusual for a man who began life in the Indian Civil Service to have attained eminence in the very different field of accountancy, and, in addition, to have found time to employ his gifts in the public service of Edinburgh.

Mr. Allen observed that the Welfare State would surely continue, whatever political changes might occur, short of a revolution. Planning was the essence of this concept, but the fact was often forgotten that the bigger the plan the less must it be appropriate to the idiosyncrasies of the individual. The policy of full employment was a case in point. He thought they were all agreed that there must be no return to the degradation and demoralisation that resulted from the mass unemployment of the inter-war years. But the question arose whether it was necessarily true that the exact converse of that, namely full employment, was an unmixed blessing. It was surely inevitable that full employment must create rigidity in the economic structure, and at a time when it was imperative that the maximum possible proportion of productive effort should be diverted towards the hard-currency markets they were suffering from that rigidity.

If a person was seeking employment it was a perfectly simple and easy matter to direct him to the appropriate export trade. When, however, the whole working population was in employment it was a very different matter, and the problem of transferring man-power from one industry to another involved the gravest issues of principle. In a recent wireless discussion there was an admission that without a modicum of unemployment such transfers did involve "some measure of control." Surely this was nothing more than a euphemism for a denial of personal liberty which an unabashed totalitarian might envy.

They all probably had experience of the waste and inefficiency which derived from the fact that unskilled workers of all types had been largely immunised from the normal consequences of slackness and inefficiency. Junior employees flitted from one job to another with a frequency and an irresponsibility which was demoralising to themselves and to their co-employees. He would suggest that they were nothing more

than the victims of a policy which expected from them more than they had to give.

He was not suggesting for a moment that indulgence was confined to any one class. He would go so far as to say that many busy people used their very busy-ness as a convenient excuse for escaping from tasks which were less to their liking. His plea was that planning for the Welfare State should be humanised, so that the demands made might be kept within the competence of the majority of the people whom they met daily in every walk of life. This more realistic approach to the problem, by avoiding the extreme of the theoretically desirable, would induce flexibility and would certainly involve less conflict between plan and plan and between the various sectional interests.

To-day there was a call for inspiring leadership and he thought members of the accountancy profession could do much to arouse the interest of men in all walks of life. They had a tradition of service to the community. The basic facts of the problems confronting this nation and the whole of Western Europe were well known and they, as accountants, could play their part in bringing these facts constantly before the people. Moreover, they should emphasise that the problems were above party and that sustained co-operative effort was essential.

Mr. Peter G. S. Ritchie, senior Vice-President of the Branch, in proposing the toast of "The Guests," emphasised the widely representative nature of the company. In felicitous terms he referred to the various accountancy bodies and their close association with the law, trade and commerce and the Inland Revenue.

Mr. J. Percival Agnew, Deacon Convener of the Incorporared Trades of Glasgow, and Mr. J. M. Thomson, Edinburgh, President of the Institute of Bankers of Scotland, acknowledged the toast.

NATIONALISATION AND THE PRACTISING ACCOUNTANT

THE ANNUAL DINNER OF THE INCORPORATED Accountants' District Society of Devon and Cornwall was held at the Globe Hotel, Newton Abbot, on November 18. Mr. W. R. Frost, F.S.A.A., President of the District Society, presided.

The toast of "The Counties of Devon and Cornwall" was proposed by Mr. K. E. C. Budge, F.S.A.A., Vice-President of the District Society.

Colonel P. R. Ayres, Devon County Council, in responding, expressed his gratification at being among so many gentlemen capable of "telling those dreadful income tax people just where they got off"

Mr. Henry Elam (Recorder of Exeter) proposed "The Society of Incorporated Accountants and Auditors." He confessed that on receipt of the Society's invitation his mind went back to an intricate and delicate case with which he was concerned not very long ago, in which his "right-hand man" was an accountant. The accountant did all the work and he (Mr. Elam) got all the credit. (Laughter.)

As a barrister, he concurred with the High Court Judge who recently declared that accountants as witnesses were "beyond reproach."

Mr. A. Stuart Allen (President of the Society of Incorporated Accountants), in responding to the toast, expressed his pleasure in revisiting the West Country after a lapse of many years. He drew attention to the increase in the scope and complexity of the responsibilities of practising accountants which had occurred since the early years of the century and cited, in particular, the Companies Act, 1948, and the present taxation laws, by contrast with the corresponding statutes which were in operation prior to the first world war.

He then referred to the grave national situation and to the need for a clear understanding of the basic problems with which the country was confronted, and he emphasised the services which the accountancy profession could render in bringing home to all sections of the community the seriousness of the position and the need for a combined and sustained effort.

He proceeded to refer to the special problems confronting practising accountants arising, in part, from the nationalisation of so many large undertakings and to the absorption by those undertakings and Government departments generally of many qualified men. An analysis of the Society's membership for 1948 showed that 55 per cent. were engaged in public practice as principals or employees, leaving 45 per cent. in other employment, including those in Government and local government offices. It was important to remember that employment in such offices could offer much greater security than the profession itself. In this connection, he drew attention to the paper "Socialisation in Great Britain and its effect upon the Accountancy Profession" which Sir Frederick Alban had read in Chicago in 1948, and he commended a study of this paper to all members of the Society.

Enrolment of students was running at an all-time peak, but there were signs that a sharp fall might be experienced in the next ten years. It was essential, therefore, to encourage candidates by drawing attention to the revised examination syllabus, to the scheme for collaboration with universities, and to the other facilities for training which had now been made available. Personally, he did not share the view that the functions of a practising accountant would diminish in importance and expressed his confidence that as members of the profession equipped themselves to render better service to the community, so the demand for such services would grow, and he suggested there was room for great expansion in the collaboration between management and the practising accountant.

He paid a warm tribute to the work of the Devon and Cornwall Society, established fifteen years ago, and noted that the present President, Mr. Frost, of Totnes, was the first Honorary Auditor, and that Mr. P. D. Pascho, of Plymouth, had been Honorary Secretary since its formation.

Mr. W. R. Frost, F.S.A.A., President of the District Society, proposed the toast of the guests. On that occasion once a year the accountants were able to sit at table with the Inspector of Taxes without any differences of opinion whatsoever. (Laughter.) It was a pleasure to say how much they in the West Country appreciated the co-operation of the Inspectors and their staffs, who were ever ready to give sympathetic consideration to all proposals put forward by accountants in the course of their duties to clients. (Hear, hear.) The presence of Mr. W. L. Barrett and Mr. J. G. Simpkins, representing Exeter and District Branch of Chartered Accountants, exemplified the spirit of co-operation that existed in the profession. (Applause.)

The Mayor of Totnes (Alderman R. F. Rowe, J.P.), in response, congratulated his very old friend, Mr. Frost, upon attaining his position as their President. Totnesians, remembering the antiquity of their town and the greatness of its past, always endeavoured to live up to a worthy tradition. The accountancy profession had a very great value to the public.

Mr. H. S. Cadle, Inspector of Taxes, who also responded, said that he was fully qualified to assess what Part 4 of the Finance Act, 1948, very happily called "a benefit in kind." Such a "benefit in kind" they had all received that night, and he for one was thankful that he would not have to pay income tax on it. (Laughter.) It was a great pleasure to him to meet Incorporated Accountants elbow-to-elbow instead of on the opposite side of the table. When an Inspector had a sticky case, all he did was to write to the accountant and say, "I shall be very grateful if you will be good enough to forward your computation together with an explanation of any other items which may assist me in my examination of the figures." After that, so far as the Inspector was concerned, the case was practically settled !

THE EARNING OF DOLLARS

THE INCORPORATED ACCOUNTANTS' LONDON and District Society held a luncheon on December 6. Mr. R. N. Barnett, the chairman of the District Society, presided. The guest speaker was Sir Norman Kipping, the Director-General of the Federation of British Industries.

THE PROFIT STANDARD DISPLACED

Sir Norman said that it was no longer possible for industry at large or even for the individual firm to decide its course of conduct only on the basis of profitability. If that were to be the only standard, very few people indeed would try to sell in the dollar markets, not so much because they could not compete, as because of the immense cost of trying to break into markets which had their own very strongly established products adapted especially for them.

Any British firm now understood that tremendous efforts must be made to bridge the dollar gap, but it looked on the United States as a market subject to very wide fluctuations—a rather insecure market. It was also a very costly market, if the firm was to indulge in big market research and extensive advertising, and possibly even set up new channels of distribution. How was the business man to embark on that, if profitability was to be his only measuring scale? Sir Norman ventured to say that the majority of companies acknowledged that they could not act purely on the basis of the result that they thought they might achieve in their profit and loss account next year or the year after. He thought that they were taking the longer-term view that if they did not play their part in those costly and more difficult markets, then in the longer run they would be even worse off than they now were, through the loss of the home market itself, arising from unemployment resulting from their not dealing in the dollar market.

INCENTIVES

Much thought had been given to the question whether incentives could be the prize which would make people want to sell in the American market, whether in the profits tax or the income tax imposed on companies there should be discrimination between earnings in dollars and earnings in other currencies.

So far as the Federation of British Industries was concerned, it had been very much opposed to any such discriminatory treatment, for the reason primarily that they would hate to see the thin end of the discriminatory wedge finding any kind of support at all. Nobody would like to contemplate the kind of discrimination that might follow in choosing which forms of income were considered worthy and which forms were considered unworthy. He thought it would be a very dangerous principle ever to acknowledge.

But that was not all. After all, the man who sold the goods to the United States or Canada was only one man in a long chain of people who might have concerned themselves in the matter and whose skill and effort had made it possible for the last man in the chain to make the sale. If, for example, there was to be discrimination in favour of the motor car manufacturer who sold a car, what, in all fairness, was to be done about the man who had sold him the lighting set, the batteries, the tyres and hundreds of components? They could see that by following that line one got into an impossible tangle.

More promising was the idea of making available some portion of dollar earnings for spending by the company on things it particularly wanted from dollar sources—it might mean machinery; it might mean high-grade raw material which the company could not otherwise get; it might even mean special rations in the works canteen. He did not consider that that idea was dead yet. He thought it had to be considered and that something might come of it.

The conversations between the Dollar Exports Board—a private organisation very largely sponsored by the F.B.I.—and the Exports Credits Guarantee Department had helped to lead to some remarkably generous new offers by the latter organisation. They were prepared to guarantee loans to cover the exceptional costs of exploitation in dollar markets—costs of market research or even of carrying stocks in dollar markets—with the idea of bringing conditions there more or less in step with the risks and costs of exploitation in the more traditional markets. When the understanding of those facilities got around, many people would find that their position was completely changed.

The rate of application to the F.B.I. by its members for help and advice in relation to the American and Canadian markets had increased tremendously over the last three or four months. About four months ago he was saying that he did not believe that people had begun to start to try to get into the dollar markets. He could not say that any longer. He believed they were beginning to start to try and that there were all the signs of much closer consideration and scrutiny being given to the problem.

AN ACCOUNTANTS' TEAM FOR U.S.A.

The Anglo-American Council on Productivity—a private, non-Government concern in which the F.B.I. was playing a very important part, along with the trade unions and the British Employers' Confederation—asked the Americans if they would receive teams of people, drawn as a vertical cross-section from industries in Great Britain, and would give them a thorough "look-round" the corresponding American industry. About 16 teams had so far gone over, and 12 had come back.

They might have heard or seen the remarkable report of the steel founders' team, which was the first one to go. It was well worth while reading, whether or not one knew anything about steel founding. As this programme developed, they had become quite sure that they were "on a winner." Its success had been due partly to the composition of the teams and partly to intangible consequences of their visits, rather than to the techniques which they had seen. The teams were of 12 to 15 people and were drawn as a cross-section of the industry.

But there were some things, continued Sir Norman, which were common to every industry and which could not be properly covered by teams composed from single industries. For example, there was mechanical handling or packaging. They had formed specialist teams on those subjects and they now had in mind forming another specialist team. They hoped to consult with the county organisations about it to find whether they would collaborate. They had in mind a team to concern itself with practice in cost control and works accounting. Some of those who had gone out, some accountants who had found themselves in other teams, had said that they believed, from what they had seen of their special subjects, that there was a very great deal to be gained by forming a party of this kind. The aim was not just to learn something that was not known in Great Britain. That very rarely happened in any of these cases; usually somebody knew it, but it was not commonly used by the people in the industry: the aim was to raise the average standard of performance. The advice they had received was that by focusing interest, publicity and general attention on practice in regard to works accounting, cost control and some of these knotty problems such as the distribution of overheads, they would probably be doing a worth-while thing.

They had decided in principle that they wanted to do it, but being ignorant of accountancy and the attitude of the professional bodies they would not want to move without consulting them. Sir Norman said that he thought the luncheon might be an opportunity to mention that they had that idea in mind, and he hoped that when the proposal did come along to their parent body and a couple of others, they would see the need as the Council did and would make sure that the right men were

picked to take part in this important mission.

Mr. S. L. Pleasance thanked Sir Norman for his talk. Many members of the District Society were grateful for the activities of the F.B.I. and for its guidance in days of controls, regulations, purchase tax and the like. They admired the way in which the F.B.I. combined the duties of protecting industry and advising the Government, without any trace of political bias.

MEMBERSHIP

THE FOLLOWING PROMOTIONS IN, AND additions to, the membership of the Society have been completed during the period September 13 to December 12, 1949 :

ASSOCIATES TO FELLOWS

ALEXANDER, Reginald Stanley (*Alexander & Ingram*), Nairobi. ARCHER, Leslie Chapman, Borough Treasurer, Mansfield. BURGESS, Robert Herbert Thomas (*W. W. Beer, Aplin & Co.*), Exeter. CLARK, Stanley James (*Westlake, Clark & Co.*), Southampton. DONALDSON, John (*Moore & Smalley*), Preston. EAMES, James Percy, O.B.E., Treasurer of the City, Birmingham. GLENNERSTER, Alfred Charles (*Amsdon, Cosart & Wells*), Letchworth. HADFIELD, Gerald (*Douglas, Low & Co.*), Johannesburg. HALSTEAD, Arnold (*James Hope, Sons & Co.*), Bury. HARRISON, Fred Jeffrey (*Walter Harrison & Son*), Bradford. JONES, John Tunstall (*Ross, Jones & Co.*), Cardiff. KIDNEY, Robert Anthony (*Robert J. Kidney & Co.*), Dublin. NEAL, Frederick (*John Mathie & Co.*), London. NEARY, John (*David Carton & Co.*), Dublin. RHODES, Thomas Morgan (*Rushworth, Ingham & Rhodes*), Bradford. RICHES, Frank John (*F. W. Palmer & Co.*), Norwich. RIMMER, John Stanley (*F. A. Cawson, Webster & Co.*), Liverpool. SMITH, Douglas Niemann Lamont (*Deloitte, Plender, Griffiths, Annan & Co.*), Johannesburg. TROTH-WILLIAMS, Donald Edmund (*Hayden Green, Williams & Co.*), London. TROUNCE, Norman Leonard Rashleigh (*Peat, Marwick, Mitchell & Co.*), Manchester.

ASSOCIATES

AHMED, Syed Muslehuddin, B.A., formerly with S. B. Billimoria, Bombay. BEAUMONT, John Gordon (*Brown, Butler & Co.*), Leeds. BHANDARI, Joginder Mohan, B.A., formerly with K. P. Soni, Lahore. CARLESS, John Harold, with Stewart, Steyn & Co., Johannesburg. DICKINSON, John Brian, with Price, Waterhouse & Co., London. DUTT, Shyamal Kumar, B.COM., with S. K. Ghosh, Calcutta. FREEMAN, Francis Walter (*Wilkinson & Freeman*), Preston. HAMILTON, Francis, with McNutt & McLarnon, Sligo. HOPE, David Ephraim, with Cyril J. Auerbach, London. HYMAN, Cyril, with R. H. Munro, London. MCEVILLY, Basil Stewart Marius, formerly clerk to Stewart, Steyn & Co., Johannesburg. MASSEY, Geoffrey John Dunham, with Deloitte, Plender, Griffiths, Annan & Co., Johannesburg. MILES, John, with Hancock & Ashford, Sheffield. NOWELL, Kenneth, with J. Wm. Thompson & Co., Keighley. PULLIN, Peter John, with C. Neville Russell & Co., Dublin. REED, Leslie Richard, with Simpson, Wreford & Co., London. REYNOLDS, Sidney, with Stephenson, Nuttall & Co., Newark. SHERRY, Owen Joseph, with Stewart, Steyn & Co., Johannesburg. STOCKS, Norman, with Willett, Son & Garner, Manchester. URQUHART, Robert Crews, with Pearse & Ryan, Johannesburg. WHYTE, Kenneth Cunningham, B.COM. (*A. T. Pittman & White*), Johannesburg.

DISTRICT SOCIETIES AND BRANCHES

SOUTH AFRICAN (NORTHERN) BRANCH

THE ANNUAL SOCIAL GATHERING OF THE SOUTH African (Northern) Branch was held at the Wanderers' Club and the Wanderers' Golf Club, Johannesburg, on Tuesday, November 22, 1949. There were one hundred and thirty-four members and clerks present and, though rain washed out most games in the course of the afternoon, the gathering was thoroughly enjoyed by those present.

There was a good attendance of members from Pretoria and their clerks, who when they saw the black storm approaching in the afternoon, after the severe damage done to houses, offices and cars in the Pretoria hailstorm of the previous week, may have wondered whether their journey was really necessary.

At lunch the chairman of the branch, Mr. N. Glen, welcomed the President and Registrar of the Transvaal Society of Accountants, Messrs. R. B. Sinclair and Maldwyn Edmund, both of whom are members of the Society of Incorporated Accountants. He thanked principals for allowing clerks to attend the function, and stressed the desirability of frequent friendly contact between principals and their clerks and between firms.

After a series of close matches the "Aubrey L. Palmer Cup" for tennis was won by Messrs. B. Crews and A. N. Curry, who beat Messrs. M. Ridley and J. W. Kleynhans in the final. The golf competition brought forth commendable feats of stamina and determination from Messrs. P. R. Spence and F. G. Roome, who in the afternoon contrived in pouring rain to beat and equal respectively the score put up by Mr. R. C. B. F. Ryan in his morning round. The "Sir Llewellyn Andersson Trophy" was won by Mr. P. R. Spence. Unfortunately the rain prevented the bowls players from finishing their game.

LONDON STUDENTS' SOCIETY

AN OXFORD SECTION OF THE LONDON Students' Society has recently been formed. Members who live in or near Oxford who have not received details of this section's future programme are asked to communicate with Mr. H. Swindell, A.S.A.A., care of Messrs. Thornton & Thornton, 8, King Edward Street, Oxford.

BELFAST

STUDENTS' SOCIETY

A RECEPTION AND DANCE WAS HELD AT Belfast Castle on December 8. About 250 guests were received by Mr. H. Andison, President of the Belfast and District Society, and Mr. H. V. Kirk, President of the Students' Society.

BRADFORD

DINNER AND DANCE

A DINNER AND DANCE WAS HELD AT THE Midland Hotel, Bradford, by the Incorporated Accountants' Bradford and District Society on November 25, 1949. The President of the District Society, Mr. W. S. Wilson, A.S.A.A., F.C.I.S., proposed the toast of "The Ladies" at the dinner, and Miss Phyllis E. M. Kidgway, J.P., B.A., F.S.A.A., member of the Council of the Society of Incorporated Accountants, responded. The function was highly successful, about 140 members and friends being present.

DUBLIN STUDENTS' SOCIETY

SYLLABUS OF LECTURES

1950

January 11 : "Partnership Law," by Mr. R. P. J. Smyth, F.S.A.A.

January 25 : "Corporation Profits Tax and some aspects of tax relief under Schedule D," by Mr. P. J. Purtill, LL.B., F.C.A., F.S.A.A.

February 22 : "The Valuation of Shares and Goodwill," by Mr. A. J. Walkey, F.S.A.A.

March 15 : "Auditors' Duty in relation to the Balance Sheet," by Mr. J. C. Dalton, F.S.A.A.

Meetings will be held in Jury's Hotel, Dame Street, at 6.15 p.m.

LEICESTER

STUDENTS' SECTION

A DANCE ARRANGED BY THE STUDENTS' SECTION was held at the Oriental Hall, Leicester, on December 6. There was a good attendance of members, students and friends, including a number of students from Northampton.

Among those present were Mr. W. T. Manning, F.S.A.A., President of the District Society, and Mrs. Manning. The "lucky ticket" and raffle prizes were kindly presented by Mrs. Manning.

MANCHESTER

THE NEXT MEETING WILL BE HELD ON January 19, not on the date stated in the syllabus published in our December issue. It will take the form of a joint meeting with the Association of H.M. Inspectors of Taxes, Manchester Centre, and will be held in the Assembly Room, Blackfriars House, Parsonage, Manchester, 3, at 6 p.m.

This will be the first meeting of its type and will provide an opportunity for the exchange of views between Accountants and Inspectors with the object of minimising correspondence arising on Schedule D and profits tax computations.

SOUTH WALES and MONMOUTHSHIRE

SYLLABUS OF LECTURES, 1950

January 5: "Auditing and Fraud," by Mr. R. V. Bartlett, F.S.A.A.

January 19: "Directors' Emoluments," by Mr. Richard R. Davies, F.S.A.A.

January 27: "Standard Costs," by Mr. C. E. Sutton, A.S.A.A.

February 2: "The Audit and Preparation of Accounts for Executors and Trustees," by Mr. D. R. Carston, F.S.A.A. (Cardiff Students' Section.)

February 2: "Liquidation," by Mr. C. E. Harrison, A.S.A.A. (Newport Students' Section.)

March 2: "Some Aspects of Foreign Exchange with special reference to devaluation," by Mr. R. D. Penfold.

March 17: "The Accountant as Executor," by Mr. J. J. Jackson, F.S.A.A.

March 23: "Taxation of the Income of Individuals," by Mr. A. E. Langton, LL.B., F.S.A.A., F.C.A.

At a meeting held on December 9 the chair was occupied by Mr. Richard R. Davies, F.S.A.A., President. An informative lecture on "Taxation" was given by Mr. James S. Heaton, A.S.A.A., who dealt mainly with lump sum payments to directors and the wear and tear allowances. There was a large attendance and many questions were dealt with by Mr. Heaton.

EXAMINATIONS

THE PRELIMINARY, INTERMEDIATE AND FINAL Examinations of the Society will be held on May 16, 17 and 18, 1950, at London, Manchester, Leeds, Birmingham, Cardiff, Glasgow, Dublin and Belfast.

Candidates are asked to obtain their application forms from the Honorary Secretary of their Branch or District Society.

Completed applications, with all relevant supporting documents and the fee, should be sent to the Secretary, Society of Incorporated Accountants, Incorporated Accountants' Hall, Victoria Embankment, London, W.C.2, not later than Monday, March 20, 1950.

PERSONAL NOTES

Mr. F. E. Price, F.S.A.A., a partner in Messrs. Alban & Lamb, has been appointed a part-time member of the Area Gas Board for Wales. Mr. Price is also a member of the newly constituted Development Corporation established for the purpose of building a new town at Cwmbran, Mon.

Sir Thomas Keens, F.S.A.A., past-President of the Society of Incorporated Accountants, has been presented by the Bedfordshire County Council (of which he is chairman) with a portrait of himself painted by Mr. J. B. Souter. The vice-chairman, Alderman J. A. Whitchurch, who presided at the presentation, said that Sir Thomas had been elected an Alderman in 1919 and became Chairman of the Council in 1935. Several members of the Council then paid warm tributes to Sir Thomas, who handed back to the Council the portrait of himself for it to hang in the main lobby of the Shire Hall at Bedford.

Mr. A. B. Ward, D.F.M., A.S.A.A., formerly accountant to the Stamford Mercury, Ltd., has been appointed chief accountant to the Oxford Times, Ltd.

Messrs. Deloitte, Plender, Griffiths & Co. have admitted to partnership Mr. D. R. Fendick, A.C.A., A.S.A.A. He is resident partner at the Manchester office.

Mr. A. E. Diamond, F.B.A.A., Mr. C. McCormick, A.C.A., and Mr. J. S. Shah, B.COM., A.S.A.A., announce that the partnership hitherto subsisting between them in the firm of Diamond, McCormick & Shah has been dissolved by mutual consent. Mr. McCormick and Mr. Shah are now in partnership under the style of McCormick & Shah at 59, St. Martin's Lane, Leicester Square, London, W.C.2.

Messrs. Henry Toothill & Son, Incorporated Accountants, Sheffield, have taken into partnership Mr. J. M. Driver, A.S.A.A., who has been associated with them for the past few years. The style of the firm remains unchanged.

Messrs. Baskett & Bryant, Incorporated Accountants, London, S.W.1, announce that they have taken into partnership Mr. William Rex Wallis, A.S.A.A., who has been associated with the firm for many years. The practice will be continued under the same name.

Messrs. Street, Ibbotson & Co., Incorporated Accountants, Manchester, have admitted Mr. Leslie Veitch, A.S.A.A., to partnership.

REMOVALS

Messrs. Wm. H. Jack & Co., Incorporated Accountants, have removed to 13, Buckingham Street, Strand, London, W.C.2.

Messrs. A. J. Cooke & Co., Incorporated Accountants, have removed their offices to 23, George Street, Baker Street, London, W.1.

Messrs. Tucker & Co. have removed their Carmarthen office to Market Hall Chambers, Red Street, Carmarthen.

Messrs. Clayton & Bremill, Incorporated Accountants, have removed to 15, Wellington Circus, Nottingham.

Messrs. Campbell & Co. announce that their office is now at 87, Tettenhall Road, Wolverhampton.

OBITUARY

CLAUDE WHORLOW LEGGE

We regret to record the death on November 8 of Mr. C. W. Legge, F.S.A.A., senior partner in Messrs. Legge, Terry & Swindells, Incorporated Accountants, Seaford, London and Uckfield. Mr. Legge became a member of the Society in 1912, after attaining honours in the Final Examination. He then entered the Inland Revenue Department for a few years, subsequently commencing public practice.

ERNEST BLACKBURN SHAW

We have learned with deep regret that Mr. E. B. Shaw, F.S.A.A., died on November 15 at the age of 77. Mr. Shaw qualified as an Incorporated Accountant in 1909, and was in public practice in Huddersfield from that date until his retirement ten years ago. He was formerly a Vice-President of the Incorporated Accountants' District Society of Yorkshire, and retained his seat on the committee until the date of his death.

Mr. Shaw was an authority on the history and antiquities of the Huddersfield and Halifax districts. He was for some years an active member of the Huddersfield Naturalist, Photographic and Antiquarian Society and of the Huddersfield and District Ramblers' Federation.